

Chapter 10

Disclosure regimes

10.1 This chapter reviews the current disclosure regimes of Not-For-Profit Organisations and discusses issues associated with those regimes. In addition, this Chapter considers proposed modifications to the current system in line with the recommendations in previous chapters, to make disclosure regimes as relevant as possible to Not-For-Profit Organisations, government and the public.

Current disclosure requirements

10.2 The Choice article, published in early 2008, emphasised examples of a lack of accountability of Not-For-Profit Organisations in disclosing information to the public about how their donations are being spent. This inquiry heard that:

Previous inquiries highlight the significant reporting burden that many NFPs face, largely because they have multiple funders, multiple regulators, and multiple stakeholders (not just shareholders).¹

10.3 The Choice article ran with the tagline 'How much of your donation is gobbled up by fundraising fees and expenses?' Professor Myles McGregor-Lowndes explains the paradox inherent in such a point of view:

There is a paradox at work here that we ought to recognise. Transparency is not a frictionless or costless exercise and in some cases it can be very expensive. What I see out there is that some donors—and they are very few—want everybody to be extraordinarily transparent so they can pick and choose what they want. They want low administration costs and low fundraising costs, which is one of the reasons for more transparency. The paradox comes that they are not willing to pay for the cost of transparency—not at all. In fact, they want transparency to make sure they are not paying for fundraising costs or administration costs.²

10.4 The committee also heard from other submitters that this perceived lack of transparency and accountability from the Sector may be a result of a lack of understanding about how these organisations operate:

It is assumed that any funds raised that are not spent on service delivery are somehow wasted on 'administration' and 'marketing' as if these activities did not contribute to the goals of the charity. Administration and marketing support both the fundraising effort and the disbursement of funds received. Would those who mount such critiques really prefer that charities did not

1 PilchConnect, *Submission 129*, p. 33.

2 Professor Myles McGregor-Lowndes, *Proof Committee Hansard*, 29 October 2008, p. 50.

train their staff, did not seek to raise funds from as wide an audience as possible and did not speak up for those they seek to serve?³

Fundraising ratios

10.5 The Choice article notes that there should be a simple system available to donors who wish to examine how their chosen charity compares with others. The article believes that fundraising ratios is a method with which to accomplish this. Choice also notes that:

The problem, as this article identifies, is that charities' ratios are calculated in different ways, taking different costs and revenues into account, so they can't be compared on a like-for-like basis.⁴

10.6 However, as noted in the article, there is currently no uniform accounting standard or reporting standards available for use by Not-For-Profit Organisations. However, contributors informed the inquiry that the average donor wanting this and other financial information from charities and other Not-For-Profit Organisations is in the minority. Dr Ted Flack explains that:

One of the beauties of internet giving is that, with the technologies that are available, you can actually track what people look at and what they do not look at. The interesting stats are when people go to a website after a television ad comes on to support a breast cancer appeal or something like that—ring 13 19 12 or something. Or go to breastcancer.com.au, and you can actually see where they go. Nobody goes anywhere near the financials. They are going to the stories. They are going to the experience of breast cancer. They are going to the anecdotes about the survivor. They are going to the human aspects of those things. They do not go anywhere near the financials.⁵

10.7 Professor Lyons, however, supports the idea of transparency through making comparable information available to the public.

As the public becomes more educated, it is sensible to assume that giving will become for more people a rational activity where they want to see relevant data and want to run comparisons between organisations in a particular field supporting a cause that they want to support. As public policy that should be encouraged. In part, this would help resolve Professor McGregor-Lowndes's dilemma, which is a very real one at the moment. A better educated public will understand how these organisations work. There will be less fuss about nonsense like, 'I want all of my gift to go to that poor person over there', which some big nonprofit organisations unfortunately

3 Aged & Community Service Australia, *Submission 131*, pp 2-3.

4 Choice Magazine, *Charities*, March 2008, <http://www.Choice.com.au/viewArticle.aspx?id=106240&catId=100268&tid=100008> (accessed 23 September 2008).

5 Dr Ted Flack, *Proof Committee Hansard*, 29 October 2008, p. 49.

cater to in a piece of economic nonsense. We need to encourage a rational approach to philanthropy, and we can best do that by ensuring that appropriate comparable data is available in a free accessible public source.⁶

10.8 Youth Off The Streets believe that the first step in achieving this transparency through availability of public information is the education of the public:

Develop a campaign in consultation with the sector to educate the public on how the sector functions and how funding and donations are spent.

Transparency is helpful only if the public understands the information being provided and has the framework for appropriately assessing and judging the sector. The public needs to be educated to understand that the sector cannot run services, provide programs, advocate and contribute to the national research agenda if it does not have adequate infrastructure and support staff. Public expectations that the sector spend all its funding and donations on “front-line” services is unrealistic and should be challenged.⁷

10.9 The committee heard that, in the absence of any regulation specific to the sector, many Not-For-Profit Organisations report at levels far beyond their legal requirements. For example, Mr Dan Romanis of the Royal District Nursing Service told the committee that:

...at least an annual basis we put out a newsletter to our donors in which we also give facts as to exactly how donations have been used and what our costs have been against those donations.⁸

Government

10.10 While criticisms were directed at Not-For-Profit Organisations in relation to financial transparency in reporting, Not-For-Profit Organisations in receipt of government funding complained of the excessive and disparate reporting required by government and different departments:

[W]e have estimated that we utilised 46 per cent of that grant in accounting for that grant.⁹

The level of compliance that we have to go through is comparable with big companies who are on a for-profit basis.¹⁰

...our compliance and disclosure obligation has become a complex, inefficient burden requiring additional staff, taking much of the time of

6 Professor Mark Lyons, *Proof Committee Hansard*, 29 October 2008, p. 53.

7 Youth Off The Streets, *Submission 110*, p. 6.

8 Mr Dan Romanis, Chief Executive Officer, Royal District Nursing Service, *Proof Committee Hansard*, 28 October 2008, p. 7.

9 Ms Kasy Chambers, Executive Director, Anglicare Australia, *Proof Committee Hansard*, 28 October 2008, p. 34.

10 Mrs Margaret Horngold, Darumbal Community Youth Service, *Proof Committee Hansard*, 18 July 2008, p. 24.

existing administrative and management staff, and moving our focus from support to report.¹¹

...there is no common method of accounting for expenditure across Government departments. This places a significant compliance burden on organisations.¹²

10.11 One of the criticisms of the reporting requirements of government related to the fact that the reporting is not necessarily proportionate to the value of the grant:

Often, the same reporting requirements are placed on organisations whether it is a grant of \$5,000 or a grant of \$50,000. Part of the difficulty, too, with funding is that we potentially have funding from one government agency but in five buckets, so that each has its own reporting schedule and key performance indicators that need to be addressed.

Part of the job that we have to do inside the organisation is to do the financial tap dance to keep those things in their own little silos, because you have to report back that way. But then you have to look at the overall picture for the organisation with regard to what it is doing and producing and whether it is addressing all its compliance requirements.¹³

10.12 In addition, the committee heard that the reporting required by governments indicated a lack of sensitivity to the nature of Not-For-Profit Organisations by having an excessive focus on outputs achieved through government funding.

In relation to non profit organisations' use of government funding, ACOSS rejects the suggestion that there is a lack of accountability. Community service and welfare organisations hold themselves to strict contractual and reporting requirements for funding they receive from governments and other sources of funding. The real challenge for improving the use of Government funding is changing current Government practice. The imposition by Government of poorly formulated reporting and accountability frameworks limit the capacity of non profit organisations to innovate and introduce best practice. For example, organisations are offered contracts that focus rigidly on outputs, instead of outcomes, and include performance indicators that bear little or no relationship to the nature of the work undertaken by the organisation.¹⁴

Other accountabilities

10.13 The committee received evidence of the numerous requirements that Not-For-Profit Organisations may need to comply with in order to operate and commends the

11 Valmar Support Service Ltd., *Submission 14*, p. 1.

12 Council of Social Services NSW, *Submission 134*, p. 10.

13 Mrs Margaret Hornagold, Darumbal Community Youth Service, *Proof Committee Hansard*, 18 July 2008, p. 17.

14 Australian Council of Social Services, *Submission 109*, p. 5.

submissions of Mackillop Family Services and Clubs Australia¹⁵ for a demonstration of the legislation and regulations with which these two different Not-For-Profit Organisations must abide.

Committee View

10.14 The committee concludes from the evidence that it has received that the financial information of an organisation should be available to the public in a standard form to promote comparability across other Not-For-Profit Organisations. However, the committee also notes the flaws of exclusively using fundraising ratios as an indicator of the performance of an organisation and that other ways of measuring outcomes, such as social return on investment, warrant further investigation.

10.15 The committee found that Not-For-Profit Organisations are highly transparent in acquitting grant funds from the government. The committee also acknowledges the expense that Not-For-Profit Organisations can incur when fulfilling the reporting obligations to government. One goal of reform advocated in this report is to reduce these expenses. The committee notes the development of a single service contract by the Department of Health and Ageing for services provided by Indigenous organisations provides a useful model.

10.16 The committee also believes that, in providing annual reports and revenue statements to a national regulator, Not-For-Profit Organisations should clearly identify the source and amount of their revenue (such as how much revenue has been obtained through government grants versus public donations).

Characteristics of a New Disclosure Regime

10.17 Of the 183 submissions to this Inquiry, the vast majority of Not-For-Profit Organisations noted that they supported transparent disclosure; however the current system of reporting to the public (where this was undertaken), the appropriate regulator and the government was difficult to manage.

10.18 In its consideration of a specialist legal structure for the Not-For-Profit Sector, the issues of a standardised disclosure regime under that structure was briefly discussed. The committee was warned of the dangers to small and micro organisations of a one-size-fits-all approach to reporting, with many submitters fearing that onerous reporting requirements could cause organisations to collapse. Witnesses also suggested that the committee should use other criteria to determine reporting requirements, according to whether the organisation is a charity or not and its 'publicness'.

10.19 In order to achieve flexibility in disclosure requirements while having all Not-For-Profit organisations under a single specialist legal structure, a number of

15 Mackillop Family Services, *Submission 43*, Attachment 1. Clubs Australia, *Submission 54*, pp 6-9.

contributors supported a tiered reporting system, such as the system which operates in the UK.

You would surely be able to operate a tiered reporting system which would not make it overly onerous for the organisations at the lower end of the scale, particularly if there were a single structure that they operated under to provide that consistency across the sector.¹⁶

10.20 Dr Ted Flack makes the following recommendation:

New, differential reporting regime for all not-for-profit organisations, including charities, linked to tax status - that new mandatory, differential reporting standards be developed for four classes of organisations - small private not-for-profit organisations, large private not-for-profit organisations, small public not-for-profit organisations and large public not-for-profit organisations. That compliance with these national standards is linked to continued endorsement of tax status...¹⁷

10.21 Some witnesses, when questioned by the committee about a tiered approach, favoured a UK-type model, where the tier on which an organisation sits is dependent on its income.

There do need to be scales. We need to have a different approach for an organisation that is funded for one position which is a volunteer coordinator and that is its only salaried position. That would have a turnover of, say, \$50,000, \$60,000 or maybe \$75,000, with all overheads included. I think we do need a different standard that applies to those which are small than that which applies to the \$200 million or \$300 million organisations, for which a much higher level is appropriate.¹⁸

We are one of the larger charities in Australia, but there are many charitable organisations that are significantly smaller, have a smaller remit and are smaller in terms of their income. Whatever regulator eventuates—and hopefully one does from this inquiry—it has to have a nuanced approach, a tiered approach to what is legitimate to expect of different sized organisations and organisations with varying range and scope.¹⁹

Committee View

10.22 The committee finds that there is merit in all of the suggestions about tiered reporting regimes given over the course of the inquiry. The committee believes that reporting under a specialist legal structure should be tiered, but also believes that it is

16 Mr Paul Prindable, National Manager, Risk and Compliance, Perpetual Ltd., *Proof Committee Hansard*, 31 October 2008, p. 31.

17 Dr Ted Flack, *Submission 12*, p. 1.

18 Mr Gregory Mundy, Aged and Community Services Australia, *Proof Committee Hansard*, 28 October 2008, p. 29.

19 Mr Andrew Hewett, Executive Director, Oxfam Australia, *Proof Committee Hansard*, 30 October 2008, p. 29.

not in the best interests of the Sector to create additional complexity by requiring those tiers to be based on charitable status or tax concessions/exemptions or public/private operations. Any of these options has the potential to create additional confusion, not just for Not-For-Profit Organisations, but also for members of the public who are seeking comparability between organisations (and it is the intention of the committee that the information be publicly available). The general public may find it difficult to understand how two similar organisations with similar revenue, for example, could be on two different tiers depending on the organisations' charitable status. A straightforward method of assigning tiers is on total annual revenue.

10.23 The committee believes that, below a certain annual revenue threshold (to be determined), Not-For-Profit Organisations should not be required to submit audited financial records. The committee recognises that revenue is only one metric of size, but using a multidimensional approach would introduce excessive complexity. To balance this concession, the committee supports the inclusion of a penalty clause stating that it is an offence to deliberately submit misleading information.

Recommendation 10

10.24 The committee recommends that a tiered reporting system be established under the legislation for a specialist legal structure.

Recommendation 11

10.25 The committee recommends that the tiers be assigned to organisations based on total annual revenue.

10.26 The committee received numerous suggestions from contributors as to what features should be contained in any new disclosure regime.

Accounting standards

10.27 The Australian Evangelical Alliance summarises the issue of a lack of sector-specific accounting standards:

To date there are no specific or consolidated accounting standards published by the AASB to which not-for-profit organisations or their auditors may refer in preparing accounts. Deficiencies in this approach have been well documented. The Industry Commission outlined several in 1995: “Current standards, for example, give inadequate guidance in relation to the classification and recording of: valuation of donated goods; depreciation of gifted assets; treatment of bequests; capital grant funding; capital replacement provisions; and maintenance reserves.”²⁰

10.28 Mr Don D'Cruz commented to the committee of the value of accounts without a proper accounting standard:

20 Australian Evangelical Alliance, *Submission 37*, p. 5.

[T]here is a lack of common accounting standards, which means that one charity might look very good in terms of its accounts as opposed to another charity that does not bother to put them up, but the accounts are not worth the paper they are written on.²¹

10.29 The committee notes that the Government's Standard Business Reporting (SBR) initiative is currently developing a reporting taxonomy for for-profit organisations. SBR is

...a multi-agency initiative that will simplify business-to-government reporting by:

- making forms easier to understand
- using accounting/record keeping software to automatically pre-fill government forms and
- introducing a single secure way to interact on-line with participating agencies.
- As a result, businesses and their intermediaries will have a faster, more efficient reporting mechanism.

...

SBR is expected to save Australian businesses \$795 million per year on an ongoing basis, freeing up resources for more profitable activities. In addition, accountants, bookkeepers, tax professionals and software developers will have access to a powerful system for improving service delivery and productivity.²²

10.30 As a result of the initiative, which is being undertaken in four separate phases to allow feedback from users, 'business and government agencies will map their internal systems to this common language resulting in a more efficient and more reliable exchange of financial data'.²³

10.31 Ms Kerry Hicks noted that 'Not-for-profits are included in that [initiative] but quite indirectly'.²⁴ Professor Mark Lyons commented that 'I find it extraordinary that the government is embarking upon this but has not sought to put nonprofit organisations essentially through this process as they are putting for-profit entities'.²⁵

21 Mr Don D'Cruz, *Proof Committee Hansard*, 30 October 2008, p. 40.

22 Standard Business Reporting, What is SBR?, <http://www.xbrl.org/au/SBRProgram/> (accessed 12 November 2008).

23 Standard Business Reporting, *Taxonomy*, http://www.sbr.gov.au/content/information_for_software_developers_taxonomy.htm (accessed 12 November 2008).

24 Mrs Kerry Hicks, Head of Reporting, Institute of Chartered Accountants, *Proof Committee Hansard*, 29 October 2008, p. 65.

25 Professor Mark Lyons, *Proof Committee Hansard*, 29 October 2008, p. 65.

10.32 The Centre for Philanthropy and Nonprofit studies included some information about a similar project specific to Not-For-Profit Organisations:

In 2002, researchers in the School of Accountancy and CPNS believed that a standardisation of accounting terms agreed to by government and the sector would provide a solution to the problem. The development of agreed standard reporting definitions or a "data dictionary" which government funders only use in their transactions with the sector (grant applications, acquittals and reporting) would radically streamline administrative process and slash compliance costs.²⁶

10.33 Mr Kimberly Smith of the Australian Evangelical Alliance agrees that financial definitions are required, but noted that 'I would hope that could come through the Australian Accounting Standards Board, AASB, because you would need one authority to coordinate all of that'.²⁷

10.34 Professor David Boymal of the AASB states that the role of the Board is to adopt the International Financial Reporting Standards for application in Australia, and 'modify them where needed'.²⁸ This would indicate that the AASB would not be inclined to look at standards specific to Not-For-Profit Organisations without first having an international precedent.

Standard Chart of Accounts

10.35 Throughout its inquiry, the committee heard that many contributors support the implementation of the Standard Chart of Accounts (SCOA), developed by the Australian Centre for Philanthropy and Nonprofit Studies:

The work of the Standard Chart of Accounts project (Queensland University of Technology, The Australian Centre for Philanthropy and Nonprofit Studies) should be introduced for all Commonwealth and State government grant submissions and acquittals to cut paperwork compliance costs and increase the usability of information. This is an excellent initiative that is particularly important in the absence of a NFP-specific accounting standard.²⁹

10.36 The aim of the SCOA is to streamline financial accounting, and reduce costs for both Not-For-Profit Organisations and governments. Professor McGregor-Lowndes from the Centre summarised the process of developing the SCOA:

26 Centre for Philanthropy and Nonprofit Studies, *Submission 27*, p. 2.

27 Mr Kimberly Smith, Member, Compliance Committee, Australian Evangelical Alliance, *Proof Committee Hansard*, 30 October 2008, p. 61.

28 Professor David Boymal, Chairman, Australian Accounting Standards Board, *Proof Committee Hansard*, 30 October 2008, p. 74.

29 PilchConnect, *Submission 129*, p. 8.

We asked every government department and unit within each government department to give us every submission form and acquittal form with a budget. We took all of the ways that they defined the terms that they wanted nonprofits to report in. We put it all on a huge spreadsheet. It was so big we could not print it out, and not even our QUT cartography department could do it. It ran to many thousands of lines across all the departments; 113 different ways to define wages and salaries, 25 for postage and ‘petties’ and everything in between.

The chances were that a nonprofit organisation that received more than one grant from any unit in government would have different definitions. They could not rely on their chart of accounts. They had to go back to their vouchers and add salary, protective clothing, telephone—all of these things. It made no sense. Is it any wonder that nonprofits often made a guess at it rather than to go back to the actual data?

We got that data. We had a look at it and analysed the issues. There were quite a number of issues that came from that. Apart from all the different descriptions, we discovered inconsistency in the treatment of revenue in advance. The accounting standards have one view. Government departments wanted to force people to have another view about what happens with surpluses at the end of the period—were they carried over, clawed back, and how you reported them.

We got all of the government bureaucrats from the five major funding departments around a table and talked to them. We went through line by line, until they fell asleep, trying to get them to justify why they needed this information. Why were sausage sizzles taken out of hospitality for education grants? A story comes out that one day there was a ministerial brief that came down questioning sausage sizzle expenses so they decided to put it in there and it remained there for years afterwards. Why are things different? We just do it that way.

We were able to bring to them some rationality and collapse and agree on some of the definitions after a lot of talking. Some of the major drivers about why they wanted reporting on material that you would not normally expect were, firstly, the Commonwealth and state agreements required them to report on various things. They said, ‘We’ve got to collect it from the nonprofits because we have to report it back to the federal government.’ Secondly, ‘We believe that this information is necessary for us to keep tabs on what nonprofits do, how they spend money and what they are achieving.’ This is an issue of whether you are looking at throughputs, outputs or outcomes. Clearly as funders become more sophisticated and if they can move to outcomes, the reliance upon this trail of what people spent money on becomes less and less important.

What we got to was a product such that if government limited itself to only asking nonprofits for these financial definitions, then if a nonprofit adopted the chart of accounts they would be able to satisfy any budget or acquittal the government could ask. It was much longer because places like disability and housing required all sorts of sinking funds and other things. The

standard chart of account was much longer than we wanted, but it would meet all the government requests.³⁰

10.37 The committee is aware that a SCOA has now been adopted by Departments in Queensland, New South Wales and Western Australia, while a project plan is awaiting sign off only in Victoria. Following an initial discussion with representatives of Federal Commonwealth Departments in late 2007, the Department of Treasury appointed the Department of Families, Housing, Community Services and Indigenous Affairs to take the role of the lead Commonwealth agency in investigating the feasibility of implementing a SCOA.

Other methods of reporting

10.38 A number of contributors felt that there was merit in supplementing financial reporting with a narrative, arguing that in many cases this is a more appropriate form of reporting to donors than financial information or fundraising ratios.³¹ Professor McGregor-Lowndes agrees that:

I would like to see more emphasis placed on the narrative, because it is not what money you have left over at the year end—sometimes that is important—it is whether they have achieved their mission and how they are going. The storytelling and strategy of how they are going to do their mission is at the heart of what needs to be communicated to the public and to stakeholders.³²

10.39 In seeking information from witnesses, the committee found that there is little information within the sector that measures the efforts of volunteers. Professor Mark Lyons thought that this is information that should be collected:

In addition to financial there would be numeric reporting like the numerical data on estimates of volunteer contributions, which the accountants do not like. If we could develop a standard for reporting on that, then that would be tremendously important because the volunteer contribution is a really important part of what is unique and the resources that are used by these organisations.³³

10.40 In addition to these suggestions, the committee received detailed input as to what information should be included in a disclosure regime. Moore Stephens provided the committee with a list of basic information that should be required of all Not-For-Profit Organisations:

a. Mission;

30 Professor Myles McGregor-Lowndes, *Proof Committee Hansard*, 29 October 2008, pp 89-90.

31 See, for example, Mr Gregory Mundy, Chief Executive Officer, Aged & Community Services Australia, *Proof Committee Hansard*, 28 October 2008.

32 Professor Myles McGregor-Lowndes, *Proof Committee Hansard*, 29 October 2008, p. 57.

33 Professor Mark Lyons, *Proof Committee Hansard*, 29 October 2008, pp 63-64.

- b. Source of funding;
- c. Board and Committee members;
- d. Contact details;
- e. Tax status; and
- f. Commercial activities undertaken and their contribution to the mission of the entity.³⁴

10.41 The committee also received a list of required information from donor Mr Richard Stradwick:

Donors need to know the answers to five questions

1. What are the objectives of the organisation?
2. How does the organisation intend to achieve these objectives?
3. Who are the people responsible for the governance of the organisation?
4. Where do the organisation's funds come from?
5. Where are the funds used?

Donors also need to know that the organisation has supplied accounts set out in a specified form to the Government within a designated period and that the accounts have been audited by a qualified auditor; but they do not need the fine detail of the accounts.³⁵

Accessibility of reports

10.42 The committee considers that the way in which the general public is able to access the information of Not-For-Profit Organisations may assist in the perceived transparency of the Sector. The Bohlevale Community Centre asked:

Would it not be better and more open if annual reports and audited accounts were to be lodged on line, and then be available to the public (as in the UK)? Anyone seeking more in-depth analysis of reports could request them (for a standard fee) from the respective organisation.³⁶

10.43 The ability for the public to find information on a charity through a website is not a new one. GuideStar International (GSI) is a UK-registered charity which is building a global network of websites with detailed reports on countries' charities to make them more visible to those who wish to support their work. GuideStar websites publish the aims, activities, accomplishments, structure and finances of Not-For-Profit Organisations to achieve transparency. GuideStar websites:

- make CSOs [charities] more visible, accountable and effective;

34 Moore Stephens, *Submission 115*, p. 2.

35 Mr Richard Stradwick, *Submission 138*, p. 3.

36 Bohlevale Community Centre, *Submission 3*, p. 1.

- enable more confident and effective philanthropy; and
- promote vibrant and well governed civil societies.³⁷

10.44 Professor Lyons also described the benefit of GuideStar:

The GuideStar organisation in the UK draws data from the Charity Commission [Register] but it also electronically scans and summarises annual reports to provide more information than is provided even to the charity commission and then enables organisations within certain limits to add or to modify the data that is there.³⁸

Committee View

10.45 The committee commends the Australian Centre for Philanthropy and Nonprofit Studies for its work in developing a standard chart of accounts and notes the urgent need for uniform accounting standards. The committee believes that there should be elements of financial, numeric and narrative reporting in the disclosure requirements of Not-For-Profit Organisations, regardless of the tier to which an organisation is assigned. All information required under the disclosure scheme would then be forwarded to the national regulator.

10.46 However, the committee also acknowledges the concern from some members of the sector that standardising reporting requirements through a standard chart of accounts will create additional expense for Not-For-Profit Organisations. It is the committee's understanding that the standard chart of accounts, while lengthy, is intended to capture all possible reporting categories, and therefore may not be applicable to all organisations. Where this is the case, organisations would only be required to report against categories that are relevant to them.

10.47 The committee is also conscious of the perceived value of fundraising ratios to the general public, as evidenced in the Choice article. In particular, charities which employ the services of professional fundraisers to solicit donations by face-to-face contact or by telephone should be required to publish the fundraising ratios associated with the campaign conducted on their behalf by professional fundraisers.

10.48 Currently, a number of issues prevent the committee from recommending the immediate inclusion of a fundraising ratio as a reporting requirement for Not-For-Profit Organisations:

- Fundraising costs vary according to the lifecycle of the organisation (a new organisation will have considerably greater expenses - eg. advertising expenses associated with gathering more donors - than a long established one).

37 GuideStar International, *GuideStar International*, <http://www.guidestarinternational.org/> (accessed 13 November 2008).

38 Professor Mark Lyons, *Proof Committee Hansard*, 29 October 2008, p. 63.

- Fundraising cycles are not necessarily annual – eg. cycle for bequests may be 20 years, fundraising campaigns may be two to seven years.
- There is the issue of what to include in the ratio:
 - Do you count the expenses of measuring costs as a fundraising cost?
 - What is a fundraising cost – does it include electricity/light/floorspace, for example?
 - What should the ratio measure – income/turnover?
 - How do you measure the contribution of volunteers?

10.49 The committee notes that the Australian Centre for Philanthropy and Nonprofit Studies is currently investigating the issues associated with implementing a meaningful fundraising ratio for Not-For-Profit Organisations, and that this is a long term project. The committee endorses the work of the Centre, and believes that, should the project succeed in its aim, the fundraising ratio methodology should be adopted and enforced by the national regulator.

10.50 The committee agrees that a public website where information on all Not-For-Profit Organisations would be available to the public would assist in increasing the transparency and accountability of the Sector. Such a website would complement the Register of Australian Not-For-Profit Organisations and could include links to each organisation to assist donors or interested parties in finding an organisation that they would like to support.

Recommendation 12

10.51 The committee recommends that the Commonwealth Government work with the Sector to implement a standard chart of accounts for use by all departments and Not-For-Profit Organisations as a priority.

Recommendation 13

10.52 The committee recommends that a new disclosure regime contain elements of narrative and numeric reporting as well as financial, in acknowledgement that the stakeholders of the Sector want different information to that of shareholders in the Business Sector. The financial reporting should be transparent and facilitate comparison across charities.

Recommendation 14

10.53 The committee recommends that the national regulator investigate the cost vs benefit of a GuideStar-type system (a website portal that publishes information on the aims and activities of Not-For-Profit Organisations) in Australia to encompass all Not-For-Profit Organisations.