



Queensland University of Technology
The Australian Centre for Philanthropy
and Nonprofit Studies

STANDARD CHART OF ACCOUNTS

Introduction

This submission seeks to make a contribution to the deliberations of the Committee in relation to the accounting issues that promoted the Choice article¹ and in turn this Inquiry. The QUT Standard Chart of Accounts for nonprofit organisations provides an example of what can be achieved when evidence based research is used as a basis to provide an inexpensive solution to reduce red tape and improve the regulatory framework for nonprofit organisations, government departments and the public.

The Australian Centre for Philanthropy and Nonprofit Studies (CPNS) has produced numerous reports, papers and books over the last decade about most of the other issues before the Committee and also provided a wiki resource for third sector organisations to inform their submissions to the Committee.²

The Problem

The lack of consistency in accounting categories and terms required by state and federal government departments in their funding relationships with nonprofit organisations causes:

- An inability to aggregate and compare financial data for any purposes, such as public policy development, benchmarking of performance and indications of financial effectiveness or efficiency to funders;
- Significant compliance costs to nonprofits, and
- Significant administration costs for government agencies.

The compliance costs for nonprofits are especially evident for those with more than one source of government funding. Unlike other OECD countries, Australia does not provide specific national accounting standards for nonprofit organisations which have been developed in consultation with a national regulator and the sector.

There is a need to improve the reliability and comparability of the financial data (in particular) across the nonprofit sector for use by government, organisations and the public. There is also a need to reduce the compliance costs (mostly unfunded for organisations) and streamline government administration costs.

¹ A preview of this report is available online at

<http://www.choice.com.au/viewArticle.aspx?id=106240&catId=100268&tid=100008> . The full report is a .members access only. article.

² Refer to <https://wiki.qut.edu.au/display/CPNS/Senate+Inquiry+Resource+Materials>

The extent of the problem has been rigorously researched, quantified and published in the leading journal *Journal of Public Administration*.³ Grant documentation from 24 government departments was collected and analysed by the researchers. Flack and Ryan (2005) found that there was no consistency between government departments in the financial treatment and accounting terms for grant and tender acquittals. There was also a wide range of incompatible financial reporting requirements across departments and, in some cases, between different programs within the same department.

For example, a total of 129 different revenue line items and 836 different expense line items were identified in the departments' forms or instruction documents. Differences occurred both in the line descriptions and in the accounting treatment for the same types of expenses.

The major variations occurred around the material expense item for labour costs. Our analysis revealed a total of 113 different line descriptions in the documents that related to direct labour costs; e.g. in the expenses category, departments included different items: for some, 'salaries' covered salaries only; others included salaries and direct on-costs; for others, 'wages and salaries' included 'costs of employment', such as 'staff training' and 'protective clothing'; others included staff transport; and some departments required workers compensation insurance to be treated as a salary and wages on-cost, instead of aggregating this with general insurance.⁴

The effects of variation in terminology and treatment - especially in terms of implications for cost compliance - are quite profound for nonprofit organisations. These effects are exacerbated for nonprofit organisations who receive grants from more than one source that require different reporting definitions. Since a nonprofit organisation's accounting system is designed to capture financial transactions just once, an imposed requirement to report similar transactions in incompatible ways means that nonprofit organisations often have to manually recalculate financial transactions from the vouchers, thus adding significantly to their costs of compliance.

Further, Flack and Ryan (2005) found that data could not be aggregated usefully. Since evaluations of performance rely to some extent on comparisons between the activities being evaluated, government departments are unable to use this financial information to develop comparable data on financial performance or to build efficiency benchmarks of similar activities by different nonprofit organisations.

The Solution

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.

For full benefit, the standardisation depends on departments having the disciplines in place to request only information specified in the Standard Chart of Accounts

³ Flack, T., & Ryan, C. (2005). Financial reporting by Australian nonprofit organisations: dilemmas posed by Government funders *Australian Journal of Public Administration*, 64(3), 69-77.

⁴ Ibid

(SCOA), but nonprofit organisations are not compelled to use the SCOA. However, we believed that most would use SCOA over time, as the SCOA provides significant ongoing benefits to adopting organisations.

The Queensland nonprofit sector and Queensland Treasury welcomed the proposal and CPNS worked to develop the proposal into a reality. This is the same solution that is now being proposed by the COAG Standard Business Reporting Program for business reporting to government.⁵

Implementation

Consultation has been a key to the completeness and veracity of the QUT developed SCOA with input from all groups. The input has been from sector participants, large and small; community bookkeepers; voluntary and paid treasurers; accountants; auditors; grant makers; all levels of government; grant acquitters; peak body representatives at both the 'coal face' and on committees, and the research project team.

A CPNS/School of Accountancy team has engaged with:⁶

- Queensland Treasury and five Queensland government departments to develop a SCOA and data dictionary for nonprofit organisations that receive government funding:
<https://wiki.qut.edu.au/display/CPNS/Queensland>;
- The Queensland Rugby Union (QRU) to develop a SCOA for its clubs, accompanying financial manual for volunteer bookkeepers and a financial benchmarking of such clubs. This has been included in the QRU's *Club Rugby Admin Kiosk* which is designed to improve the lives of volunteer club rugby administrators.⁷;
- The New South Wales Department of Communities (DoCs) as the lead agency in the Human Services Cluster to implement a SCOA for nonprofit organisations in New South Wales:
<https://wiki.qut.edu.au/display/CPNS/New+South+Wales>;
- The Western Australian Department of Communities to sign an agreement to review the Queensland SCOA and modify it to suit the Western Australian landscape by the end of December 2008:
<https://wiki.qut.edu.au/display/CPNS/Western+Australia>; and
- The Victorian human services departments and FaHCSIA (Families, Housing, Community Services and Indigenous Affairs) to discuss ways forward in those two arenas: <https://wiki.qut.edu.au/display/CPNS/Victoria>

SCOAs are now freely available from the CPNS wiki site.⁸ This includes value adding material such as:

- Template data file accounts for free download over the Internet in Microsoft Excel, MYOB and QuickBooks;
- Streamed on demand video (in broadband and compressed dial up modes) of conversion instructions to the SCOA and best practice book keeping for volunteer treasurers and book keepers – 4 hours;
- Step by Step downloadable manuals for MYOB, QuickBooks and other accounting packages on implementing the SCOA and best practice bookkeeping;

⁵ Refer http://www.coag.gov.au/coag_meeting_outcomes/2008-07-03/docs/standard_business_reporting.rtf

⁶ All web sites and wiki spaces are updated regularly and may have extra information from time to time.

⁷ A copy of the Club Rugby Admin Kiosk is available to rugby clubs throughout the state at no cost:

<http://www.qru.com.au/qru/qru.rugby/page/62655>

⁸ <https://wiki.qut.edu.au/display/CPNS/Standard+Chart+of+Accounts>

- An email discussion group for nonprofit treasurers, accountants and bookkeepers as well as a FAQ and 'ask the expert' email service.

The SCOA's developed to date have needed to be slightly different for Queensland, New South Wales and Western Australia in that there are different state based legislative requirements. For example, Gaming and Fundraising are defined by state based legislation and the requirements are slightly different in each state. While a SCOA accommodates and defines these activities, they are slightly different in implementation at a local level. The SCOA's have been aligned in all aspects and improved with new information, clarification and examples for inclusion and exclusion with each state's working groups. Even though the Australian Accounting Standards (AASB) has transaction and sector neutrality, the accounts have been cross referenced with the relevant standards for ease of use.

Review and Results

With the implementation of the SCOA in both Queensland and New South Wales, the anecdotal evidence is that:

For Nonprofit Organisations

- Organisations have taken the opportunity when converting to the SCOA to upgrade their accounting systems (we discovered some organisations using pre-GST accounting software) and come into line with generally accepted accounting protocols;
- Organisations have revamped their financial reporting to their boards and begin rudimentary benchmarking with other like organisations now that they are using similar SCOA;
- Organisations have invested in greater accounting staff training and financial literacy for staff and boards;
- Auditors have welcomed the standardisation which makes their task easier and contains otherwise rising audit costs;
- Implementation has resulted in portability for new treasurers and bookkeepers, especially in the rural communities;
- SCOA has been of great assistance for responding to state government moves to introduce 'unit cost funding' by permitting more reliable analysis of actual unit costs of service delivery and benchmarking;
- Even though the initial intention is for small to medium nonprofit organisations, the larger organisations are adapting their charts of accounts to reflect the same general structure and adopting the definitions. Typically, they have a wider variety of accounts due to their nature and size. However, the flexibility of such a tool as the SCOA is that organisations can add specifics to accommodate their specific requirements without compromising the general intent or design of the tool.

For Government:

- Central departments such as Treasury and Premiers have been reluctant to require adherence by departments to the SCOA;
- Departments have generally moved voluntarily to adopt the SCOA, particularly where they have been engaged in the consultation process;
- Adherence to the SCOA can breakdown in a department when there is a turnover of staff at senior or coal face levels who have not been briefed about the SCOA;
- Most departments prefer to incrementally adopt the SCOA as new funding rounds are announced (often in 3 year cycles);
- Many departments have not taken advantage of the standardised financial information to benefit from its aggregation for policy development; and

- Federal funders (who have not yet taken up the SCOA) impose requirements on states and those requirements are contrary to the state departments use of SCOA.

To test these assertions more rigorously, in early 2008, CPNS completed research quantifying the time and cost of government generated paperwork for Queensland nonprofit organisations, prior to the introduction of the SCOA. It is intended to return after the implementation of the SCOA to measure any compliance reduction, with the findings to be published in a journal shortly. However, a number of recommendations⁹ have already come from the research with a key recommendation being that a whole of government data dictionary that standardises financial, client data and other reporting terms be collated and that data duplication should be minimised.

In addition to CPNS research, the Queensland Government contracted an independent researcher (Lisa Kennedy of the University of Queensland) to evaluate the introduction of the QUT SCOA to departmental funded nonprofit organisations. The evaluation report¹⁰ noted that:

Survey respondents were asked whether they had adopted the *Standard Chart of Accounts*. The majority (62 of 104 respondents) had adopted all relevant aspects or done so in part. A further 10 respondents said they planned to adopt it in the future.¹¹

And,

When asked how easy the SCOA is to use once you are familiar with it most people (90.5%, n=42) stated that it is easy:

- 38.1% (n=16) said it was very easy to use the SCOA, and
- 52.4% (n=22) said it was easy to use the SCOA.¹²

The report concluded:

As stated elsewhere in this report, it is difficult to draw conclusions about the impact of the SCOA on all not-for-profit organisations in Queensland from the survey data. However, there does not appear to be any systematic bias to indicate that the survey respondents are unlike those who did not answer the survey. Most of the indications for those answering the survey are reasonably positive and therefore, it is likely that the implementation of the SCOA will have beneficial long term benefits throughout not-for-profit organisations.¹³

A Queensland Auditor-General's review of three human service departments notes the introduction of the SCOA. The review however also observes that SCOA requires greater embedding into departmental structures and processes¹⁴

A report by the Victorian State Services Authority which examined the impact of the Victorian Government regulation and other contractual and accountability

⁹ Refer to Working Paper CPNS No. 39 How Long is a Piece of Red Tape? The Paperwork Reporting Cost of Government Grants
<http://eprints.qut.edu.au/archive/00012986/>

¹⁰ Refer https://wiki.qut.edu.au/download/attachments/5250973/CtyBookkeeperSurveyRpt_FINAL.doc?version=1

¹¹ Ibid p7

¹² Ibid p9

¹³ Ibid p12-13

¹⁴ Report to Parliament No 2 of 2007: Results of Performance Management Systems Audit of Management of Funding to Non-Government Organisations:

http://www.qao.qld.gov.au/downloadables/publications/auditor_general_reports/2007%20Report%20No.%202.pdf

requirements placed on nonprofit organisations devoted a chapter to a SCOA concept.¹⁵ The report recommended:

To streamline financial and accounting terms used in grant agreement reporting, DPCD and DTF should commit to adopting and implementing a standard Chart of Accounts and data dictionary across the Victorian Government, based on the model developed by Queensland University of Technology; and examine the potential to apply the same definitions to service agreements.¹⁶

This report is now the subject of an action implementation plan within the Victorian government.¹⁷

The Future

By the end of 2008, Queensland, New South Wales and Western Australia will have implemented in their jurisdictions a SCOA for nonprofit organisations with varying degrees of adoption by government departments. Victoria may well have also started the process of developing a SCOA.

Entry into the SCOA process by the federal departments would be beneficial as it would:

- Streamline federal grants to individual organisations;
- Remove barriers to further state government adoption by aligning their financial data requirements to existing SCOA;
- Allow the option of embedding the SCOA financial definitions into state/federal grant agreements, further driving alignment pressures to non-adopting state governments; and
- Allow the formation of a national governance body of all relevant stakeholders to consult and decide on changes to the SCOA as necessary.

The SCOA project is an illustration of the significant benefits that could flow from evidence based reform of regulatory and administrative frameworks that engage nonprofit organisations.

The adoption of the SCOA by small, medium and large organisations in the nonprofit sector (despite its only being intended for small and medium organisations) is a clear indicator of the current vacuum existing in the regulation of the disclosure regimes of nonprofit organisations in Australia. The SCOA pulls together the disclosure requirements of the AASB and various other pieces of regulation. Nothing new is proposed in the SCOA, but the fact that it is sector specific, contained in one place and has the necessary 'educative' tools attached has attracted both small and large nonprofits to adoption. The key is that government departments discipline themselves to only require information in terms of the agreed database.

We argue that this project points to the potential of a central regulatory organisation whose focus is the nonprofit sector. An accounting and reporting regime that is

¹⁵ Section 8.2 is headed Standard Chart of Accounts outlining the relationship between inconsistent financial terminology and suggesting the adoption of a standard chart of accounts in the progress towards streamlining accounting practices (Philanthropy Australia submission) and a summary of the Standard Chart of Accounts as developed by QUT (refer page 62)

¹⁶ Ibid, Recommendation 9.3 (p64)

¹⁷ Project overview

<http://www.dvc.vic.gov.au/Web14/dvc/dvcmain.nsf/allDocs/RWP5FCB0E3A722237C7CA25727C00059BFB?OpenDocument> and
Action Plan: [http://www.dvc.vic.gov.au/Web14/dvc/rwpgslib.nsf/GraphicFiles/SCO+Action+Plan/\\$file/SCO+Action+Plan+web.pdf](http://www.dvc.vic.gov.au/Web14/dvc/rwpgslib.nsf/GraphicFiles/SCO+Action+Plan/$file/SCO+Action+Plan+web.pdf)

uniform and serves the needs of its specific users is one of the foundations of accountability. The Charity Commission in the UK is the best practice model. It has as its focus the sustainability of the whole sector. It is the face of the nonprofit sector and focuses on more than disclosure regimes. However, in relation to accounting standards, it works collaboratively with the Australian Accounting Standards Board to produce a 'one stop shop' for disclosure and accounting issues for the sector. Nonprofit organisations do not need to waste valuable resources sorting through which accounting rules and regulations are applicable. The Charity Commission, through its Statement of Recommended Practices, has provided this and has demystified the processes surrounding accounting and disclosure in the nonprofit sector. Valuable resources are saved which can go towards service delivery and sustaining the sector. Funders and other stakeholders also have better tools with which to monitor, judge and influence nonprofit behaviour.

About the Authors and Centre

Professor Chris Ryan

Professor Christine Ryan is the Head of the School of Accountancy at Queensland University of Technology. Chris has a career of over 15 years teaching financial, government and public sector accounting to undergraduate and postgraduate students. Chris's research interests include public sector accounting, auditing and governance and she is the co-author of several books and publications in these areas.

Chris is a CPA, and has served on a number of education and technical standards committees (both state and national) of the professional accounting bodies throughout her university career. She has also served as a consultant to government at local, state and national levels. A fellow of the CPA Australia, Chris is also a member and past Chair of the CPA Australia's Queensland Public Sector Advisory Committee, a committee that provides policy and strategic advice on financial issues affecting the public sector.

Chris received a Citation of Excellence by the Editorial Advisory Board of Anbar International in recognition of her seminal contribution to the literature and body of knowledge and is scheduled to present the keynote address to the 2008 Biennial Conference of Australasian Public Accountant Committees and Auditors General.

The School of Accountancy is located in the Faculty of Business at QUT's Gardens Point Campus in the heart of Brisbane's central business district. Its staff are actively engaged in applied research, continuing professional education, consulting and other activities. By maintaining strategic alliances with leading business, industry, government and professional groups, the School ensures that its students have access to the most up-to-date and relevant courses that draw on emerging trends in business and industry.

The School's website is <http://www.bus.qut.edu.au/schools/accountancy/>.

Professor Myles McGregor-Lowndes

Professor Myles McGregor-Lowndes OAM is the Director of The Australian Centre for Philanthropy and Nonprofit Studies. He has advised and held board positions in a large variety of nonprofit organisations over a period of twenty-five years. Myles' special research interest is the law and regulation of nonprofit organisations and he is the author of several books and publications on these issues.

He is a consultant to McCullough Robertson Lawyers engaged in high level legal and taxation advice to large national and international nonprofit organisations. Myles is regularly called upon by state and federal governments to assist in law reform of Third Sector organisations. He is also a member of the ATO Charities Consultative Committee and Company Law Committee of the Law Council of Australia. He is presently Chair of the Australian Council for International Development Code of Conduct Committee, a Governor of the Queensland Community Foundation and a member of the Queensland Community Gambling Benefit Fund which distributes over \$35m a year to community organisations.

In June 2003, Myles was awarded a Medal of the Order of Australia (OAM) 'For service to the community by providing education and support in legal, financial and administrative matters to nonprofit organisations'.

The Centre

The Australian Centre for Philanthropy and Nonprofit Studies is located in the School of Accountancy, Faculty of Business at QUT and succeeds The Program on Nonprofit Corporations which was established at QUT in 1991. It conducts postgraduate courses and research degrees in philanthropy and nonprofit studies, research and community service activities that contribute to the development of philanthropy, volunteerism and management of nonprofit organisations. The Centre is the first centre outside North America to be a fully accredited member of the Nonprofit Academic Centres Council.

The Centre's web site is <http://cpns.bus.qut.edu.au> and it also produces a monthly Podcast <http://www.bus.qut.edu.au/research/cpns/podcast/> and a wiki as a resource for nonprofit organisations <https://wiki.qut.edu.au/display/CPNS/CPNS+Wiki+Home>