

# PricewaterhouseCoopers submission to the

Productivity Commission's review of the contribution of the  
not-for-profit sector

May 2009



Ms Tracey Horsfall  
Administrator  
Not-for-Profit Sector  
Productivity Commission  
GPO Box 1428  
CANBERRA CITY ACT 2061

27 May 2009

Dear Ms Horsfall,

## [Productivity Commission: Review of the contribution of the not-for-profit sector](#)

We are delighted to provide our submission to the above review. We have worked extensively with clients in the not-for-profit (NFP) sector and are a major supporter of the sector through our PwC Foundation. We also actively encourage improved reporting across the sector through our annual PricewaterhouseCoopers Transparency Awards.

The main points of our submission are as follows:

- We support a simpler national system of regulation and reporting for the NFP sector.
- We support the use of a common terminology and a standard chart of accounts for the NFP sector to encourage consistency and streamline interaction with government.
- We support the introduction of a national regulator to oversee the established reporting and regulatory framework and the consistent application of agreed standards.
- We see the current tax policy settings for the NFP sector as basically sound, but believe there is scope for improvement through greater harmonisation of relevant legal requirements and the streamlining of applications through a central regulator.
- We acknowledge the sector's concerns about a growing emphasis towards short-term funding and funding only for outputs. This results in fewer funds for long-term or strategic goals and for running an efficient and sustainable organisation. We encourage the Commission to consider the impact of this on the sector.

We believe the scope of this review will generate many informed views and ultimately result in positive reforms for the NFP sector; however, we also note that there have been several other inquiries over the last nine years. Above all, therefore, we encourage government to ensure that a bold start be made on the journey of regulatory change and sustainable reform.

We have restricted our comments to those areas of the review where we believe our knowledge and experience will add value to the Commission's findings. Our comments are set out in line with the Commission's terms of reference. We are happy to expand on any of the issues raised.

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27 May 2009

## Publication of our submission

PricewaterhouseCoopers consents to making this submission available to the public on the Commission's website.

## Key contact

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Yours sincerely

Mark Johnson  
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## About our submission

We are delighted to have the opportunity to provide input to this review. PwC has extensive experience in working with the not-for-profit (NFP) sector, which we consider plays a vital role in the ongoing advancement of social and community welfare in Australia and in the global community.

Our response to the Commission's Issues Paper is contained in this document and its appendices. We have restricted our comments to those areas of the review where we believe our knowledge and experience will add value to the Commission's findings.

### Main points of our submission

- We support a simpler national system of regulation and reporting for the NFP sector and encourage government to make a bold start on that journey. Particularly in areas where a national approach would create efficiencies such as legal incorporation, annual and government reporting, tax status and fund raising.
- We support the use of a common terminology and a standard chart of accounts for the NFP sector to encourage consistency and streamline interaction with government.
- We support the introduction of a national regulator to oversee the established reporting and regulatory framework and the consistent application of agreed standards.
- We see the current tax policy settings for the NFP sector as basically sound, but believe there is scope for improvement through greater harmonisation of relevant legal requirements and the streamlining of applications through a central regulator.
- We acknowledge the sector's concerns about a growing emphasis towards short-term funding and funding only for outputs. This results in fewer funds for long-term or strategic goals and for running an efficient and sustainable organisation. We encourage the Commission to consider the impact of this on the sector.

We have set out our responses to areas on which you seek comment as follows:

## Our response to the terms of reference

### Scope of the study

- 1.1 The Commission's proposed approach of "... narrowing the study's focus to consider the specific policy and capacity issues raised in the terms of reference".
- 1.2 The findings and recommendations of previous inquiries (of those not addressed, which are the most important for improving the efficiency and effectiveness of the sector?)

### Measuring the contribution of the not-for-profit sector

No comment

### Enhancing the efficiency and effectiveness of the not-for-profit sector

- 3.1 Approaches taken in forming partnerships with businesses for improving access to human resources and organisational capabilities, and how any impediments might be resolved.
- 3.2 Any restrictions to financing options, and options for overcoming them.
- 3.3 Factors impeding or facilitating the spread of knowledge among NFPs regarding how well they deliver their outcomes and key drivers of their efficiency and effectiveness in doing so.
- 3.4 Are the NFP governance and accountability regulations appropriate and flexible? If not, or if they impose an unnecessary burden, how might they be improved?
- 3.5 Is general regulatory reform under the national reform agenda benefiting NFPs, or are more focused reforms needed? If so, what specific reforms might be needed?
- 3.6 To what extent are government agencies moving to 'lead provider' relationships and is this compromising the diversity and effectiveness of NFPs? What options might lessen the potential loss of provider diversity?
- 3.7 How the environment within which NFPs operate be changed to enhance their advocacy role?

### Service delivery

The efficiency and effectiveness of arrangements for the provision of government funded services, and whether such arrangements are necessary to enhance transparency and accountability.

### Trends and developments

Trends and developments that have affected the efficiency and effectiveness of the NFP sector, how the sector has responded, and any emerging trends and developments that are likely to affect the sector's future capacity.

*Additional information provided in appendices*

For your convenience we have provided web links to supporting material in appendices, including PwC's submissions to the Senate Inquiry, the Treasury Inquiry and the Henry Tax Review; an overview of the PricewaterhouseCoopers Transparency Awards; and some examples of case studies arising from our roundtable discussions with NFP participants.

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## 1. Scope of the study

*1.1. Comments are invited on the Commission's proposed approach of adopting a broad view of the sector for the purposes of assessing its contribution and narrowing the study's focus to consider the specific policy and capacity issues raised in the terms of reference.*

The Australian NFP sector is a significant component of the economy. While estimates of its size are available, the data is widely acknowledged to be incomplete and difficult to estimate. In our view, the critical question in the Productivity Commission's considerations is which part of the sector to study. As you state in your Issues Paper, the spectrum covering trade unions to charities is too broad.

We agree that your study should focus on the impact of the sector on improving the wellbeing of the Australian and global community, rather than on any particular sub-sector.

*1.2. Comments are invited on whether the findings and recommendations of previous inquiries remain relevant to the operations of the not for profit sector. Of those that continue to be relevant, and have not been acted on by government, which are the most important for improving the efficiency and effectiveness of the sector?*

We believe priority should be given to establishing a simplified national regulatory framework for requirements and reporting. This framework would include consistent standards and benchmarks for charities and the NFP sector. We have reflected these views in our submissions to various government inquiries.

PwC made a submission to the 2008 Senate Inquiry into the Disclosure Regimes for Charities and Not-for-Profit Organisations, the main points being:

- A simpler national system of regulation and reporting is needed to improve efficiency, relevance, transparency and governance. Particularly in areas where a national approach would create efficiencies such as legal incorporation, tax status, annual and government reporting and fund raising.
- Organisations receiving public funds by way of donation or government grants have greater accountability to the public. Other member-based NFP organisations have the same public accountability as proprietary companies. Thus we would support a disclosure regime encompassing:
  - all charities
  - other large NFPs with >\$25 million of assets or >\$12.5 million of revenue
  - a requirement that the financial information should be audited
  - for other small NFP organisations, the same exemptions from reporting as small proprietary companies
- We support the introduction of a national regulator to oversee the established reporting and regulatory framework and the consistent application of agreed standards, similar to those of the United Kingdom and New Zealand. The regulator could also be responsible for providing basic levels of training about the regulation and good governance practices of NFPs.

- The quality of reporting in the sector is highly variable. There is a need for a consistent base level of reporting by all those organisations with public accountability. We encourage the development of specific financial and non-financial reporting guidance. Financial reporting guidance should be developed by the AASB in areas where the guidance for "for-profit entities" is not appropriate or where there is a need for guidance on an issue relevant only to the NFP sector. A national regulator could work with the sector to develop useful non-financial reporting guidance. Voluntary measures to promote best practice reporting and to create consistency, such as the illustrative financial report produced by the Institute of Chartered Accountants in Australia, should be encouraged.

The web link for our full submission to the 2008 Senate Inquiry is attached in Appendix 1.

PwC also made a submission to the Treasury Inquiry into Public Companies Limited by Guarantee in 2007. The key points of our submission relating to NFPs were as follows:

- PwC supports parity in the reporting requirements for the various types of entities (such as unlisted public companies, companies limited by guarantee, proprietary companies) through the introduction of reporting regimes based on company size.
- The activities of the entity rather than its type should determine the additional governance and regulatory obligations that are required.
- PwC agrees that some financial reporting is required if an entity has received a grant, however, this does not need to be a general purpose financial report. A special purpose report designed to meet the grantor's needs would be ideal. However, in our view all charities who receive public donations should be required to prepare a general purpose financial report.

These points were replicated in our 2008 Senate Inquiry submission. We continue to believe they should be considered. The web link for our full submission is included in Appendix 1.

The earlier Inquiry into the Definition of Charities and Related Organisations, whose final report was released in June 2001, also made a number of recommendations. We encourage efforts to implement the 27 recommendations made in the Report of the Inquiry into the definition of charities and related organisations: June 2001.

## 2. Measuring the contribution of the not-for-profit sector

No comment – the Commission and others are best placed to measure the sectors contribution.

## 3. Enhancing the efficiency and effectiveness of the not-for-profit sector

*3.1. Comments are invited on approaches taken by not-for-profit organisations in forming partnerships with businesses for improving access to human resources and organisational capabilities and also on any impediments experienced. How might any such impediments be resolved?*

The following case study, provided in line with your request, describes how PwC has gone about building relationships with the NFP sector.

### A partnership case study – The PwC Foundation

PricewaterhouseCoopers is a major supporter of the NFP sector through the PwC Foundation and has a long-term commitment to supporting the sustainability of the communities in which we operate. Over the past six years, the PwC Foundation has developed sustainable and effective partnerships with 23 charities. These partnerships have developed in nature, from the earlier days of charitable donations and individual actions, to deeper engagement of our staff and working together to have a positive impact on broader social issues.

To us, the relationship is not just about providing financial support, but also about sharing valuable expertise, resources, advice and logistical support – in other words, enabling the partner organisation to leverage the core competencies of PwC to make a sustainable difference. It is also about our staff developing as responsible leaders, and helping to make a tangible difference.

Our 23 charity partners are aligned with the causes our people want to support – health, poverty, youth, environment and children. We survey our staff every three to five years to ensure our charity partner relationships remain aligned to their passion and focus.

The breadth of our charity partner relationships can be outlined via four key initiatives:

- PwC in the Community
- People Giving
- Capacity Building
- Corporate/Community Leadership

Capacity-building is PwC's strategic and focused approach to the way we utilise our skills and expertise in the community. Opportunities are evaluated against a set of criteria that support the Foundation's objectives and take into consideration PwC's profile. We also encourage our senior people to take up leadership roles as directors with selected not-for-profit organisations.

### *Impediments and how we manage them*

The PwC Foundation has experienced few impediments in building strong and sustainable relationships with our partners in the NFP sector. However this reflects a six-year history of a strategic approach to building these relationships, including such initiatives as the introduction of Statements of Intent with each of our charity partners. These statements set out the obligations and rights of each party in the relationship and are reviewed every six months.

We do have some concern that the environment is not systemically conducive to encouraging widespread interaction between the corporate and NFP sectors. An example of this arises from recent research into payroll-giving that we undertook in partnership with the Centre for Social Impact, Australian Charities Fund, United Way and the Charities Aid Foundation.

The results of this research, published in March 09 in *The Giving Business* (refer Appendix 1 for web link) show there is great potential for payroll-giving to raise substantially more funds to the mutual benefit of both sectors. However, many businesses are unaware of this opportunity, there is little impetus from the NFP sector, and there is little or no apparent government impetus or support. A mechanism to enable the NFP sector to address such issues collectively would be of great assistance, as would more clear-cut support and incentives from government (as has occurred in the United Kingdom with some matching of donations).

### *Other insights regarding consolidation*

We are seeing NFPs themselves seeking opportunities to consolidate with organisations supporting similar causes to their own. The primary drivers for this are:

- the need to spend less on raising money and administering the charity
- the desire to strengthen their voice for lobbying purposes
- the desire to improve their access to commercially competent and organisationally committed staff.

These consolidations are largely taking two forms:

- Those where an organisation operates under different state incorporations (eg the Heart Foundation), and sees value in consolidating their merchandising, fundraising and administration activities.
- Organisations that have overlapping but slightly different focuses, but who see value in coming together to improve the weight of their voice (eg the many different cancer charities).

Our experience has revealed the following impediments to consolidation by NFPs:

- **The high cost of merger** – Not only do NFPs need to review the economics of any proposed merger, but they also need to have the ‘buy-in’ of often large numbers of members – and other stakeholders – who are deeply connected and committed to their purpose and activities.
- **Business skills** – Most NFPs attract and retain staff who are motivated by and deeply connected to the purpose of the NFP. This, combined with the often restricted levels of remuneration they can offer, sometimes means their staff are passionate and hard working but may not necessarily possess strong business skills.

- **The type and nature of the governing board** – Many NFPs have voluntary boards. Those organisations most successful in consolidation have boards which bring together not only relevant NFP insights and experience, but also commercial acumen and business skills. Many NFPs do not have boards with this appropriate mix of skills.

### Back office functions

Some elements of the NFP are not core to their purpose and are largely lodged in the back office: supplier management, payroll, member administration, merchandise management etc. These activities are best performed in a highly commercial way, so that they can drive efficiencies and maximise the time and money available to focus on the cause of the NFP.

To this end, we encourage efforts by the NFP sector to share resources and investigate outsourcing opportunities to achieve economies of scale.

In our own roundtable discussions with our charity partners and NFP clients, participants gave practical examples of how they were outsourcing back office functions. We have included details of those examples, as well as other approaches taken to form partnerships to achieve economies of scale, as discussed at our roundtable, in Appendix 4.

3.2. *Comments are invited on the extent to which institutional arrangements and regulations restrict the financing options available to not-for-profit organisations. If significant restrictions exist, what options are there to overcome them?*

Our comments on the current regulatory framework and reporting are as set out in our response to the Senate, noted in Appendix 1.

We regard the current tax policy settings for the NFP sector as basically sound, and the following comments reflect the views presented in our submission to the Henry Review (web link to our submission provided in Appendix 1).

### **Deductible gift recipient (DGR) and charitable status**

Our dealings with the ATO on behalf of NFP organisations show that matters relating to DGR and charitable status are generally dealt with in a timely and professional manner.

However, in our roundtable discussions with our charity partners and NFP clients, it became apparent that the experience of NFPs who are not supported by an accounting or legal firm can be very different. This is often because the NFP does not have the resources needed to understand the complexity of the current arrangements and the numerous regulatory bodies involved.

For example, a practical difficulty we all encounter is that responsibility for the regulation of Australian charities is shared between the federal and state governments:

- tax deductible status is determined at federal level
- authorisation for fund-raising activities is done at state level.

In addition, the application of tax concessions and treatment is complex and may be inconsistent across an organisation's operations. For example, donations can only be tax deductible if they are put to certain uses, some of which seem anomalous (it is easier to obtain a tax deduction for building a school than for providing the classrooms with books).

### **Facilitating the process**

When it comes to dealing with the relevant state government bodies, there is scope for improving current arrangements through greater harmonisation of legal requirements and the streamlining of applications through a central regulator.

Indeed, we see merit in having a 'one-stop-shop' national agency for registering and regulating NFPs. This agency would operate separately from the ATO, allowing the latter to focus on its revenue collection role. This could also alleviate any perceived conflict from the ATO performing the competing roles of also determining (i) who should be endorsed with charitable status, and (ii) who should be entitled to the ensuing tax exemptions and concessions.

There are four other areas where we would suggest reforms: FBT, income tax, gift deductibility and tax deductibility.

## 1. FBT

The AFTS Consultation Paper (December 2008) summarises the issues relating to FBT concessions for some parts of the NFP sector. The paper points out that the \$30,000 or \$17,000 capped exemption per employee, and rebateable employer status, offend the neutrality principle. In practice, these tax concessions are used as a disguised taxpayer subsidy, enabling some NFPs to attract staff who can be paid in a tax-effective manner not available to other NFPs.

Removing FBT and including the value of big ticket benefits in assessable income would remove this inequity. It would then be left to employers to determine how to compensate affected employees, applying commercial (rather than tax-based) factors.

We acknowledge the current FBT exemptions are one of the few levers the NFP sector has for competing in the labour market with for-profit entities. However, in our view direct support would be more transparent than the current 'disguised' tax subsidy.

### *Quantifying the cost*

Quantifying the cost of the FBT exemptions to government is difficult because it appears that not all employees in the public benevolent institution and not-for-profit health sector take advantage of the concession. The relevant employers will need to consider the impact of any FBT changes on all employees, not just those who currently salary-sacrifice to obtain the FBT concession.

### *Conclusion*

Our charity partners and NFP clients acknowledge that the FBT exemptions are complex. However it is also a rare application of tax law in favour of a relatively low-paid group, and is used by the sector to remain competitive with the commercial sector. Removing it may be easy, but getting something of at least equal value would be hard-won. We acknowledge these concerns of the NFP sector and we encourage government to replace any value lost, if the concessions are removed, with subsidies of at least equal value.

## 2 Income tax – mutual receipts

Although we hesitate to recommend anything that adds to the volume of tax law, it is time that the so-called mutuality principle was given some statutory foundation, rather than continuing as a grey area of the tax system understood only by a relatively small group.

The mutuality principle generally applies only to clubs. The 'principle' is that members do not derive income from each other, and therefore income generated from members is not taxable.

Although a legislative approach might add to complexity, it would give Parliament an opportunity to consider and, if necessary, address long-standing tax and commercial issues affecting clubs (eg the adequacy of income tax arrangements for determining

member and non-member income, the impact of state-based poker machine taxes, the differentiation between a club's core community activities and its profit-making commercial operations).

We would also like to seek clarity on the policy regarding the application of the imputation regime. There appears to be inconsistency as to how the imputation provisions apply to some tax-exempt bodies (such as charities) compared with their application to mutual entities. A discussion on this matter with a view to addressing the inconsistencies would be welcome.

### 3. Gift deductibility

The recent study *The Giving Business: Creating successful payroll giving programs* showed that more can be done to encourage payroll-giving arrangements. The study found that the changes made in 2002 (the ATO issued a PAYG variation for workplace-giving programs and guidelines for evidencing the making of a gift under such circumstances) have had a beneficial impact on payroll-giving, and that the main barriers to overcome are:

- limited time and resources of program managers within organisations
- low program visibility within the organisation
- staff preference for using other forms of charitable giving
- whether such programs are considered a low business priority.

#### *The mechanics: How this could work*

Embedding workplace-giving programs into typical salary arrangements, combined with electronic payment technology, has a number of advantages for both DGRs and employees. It also provides greater assurance that deductions are not being overclaimed.

In the tax environment envisaged in our Henry Review submission – where fewer individual taxpayers lodge tax returns – workplace donations would need to be linked to the PAYG withholding rules so that the gift is reflected in the withholding rate, rather than being claimed back through the tax return process. Recent government moves to reduce the salary sacrifice/FTB problems associated with such arrangements are a step in this direction, and most welcome.

Businesses and individuals who are still required to lodge a tax return (or who choose to do so) would continue to claim tax deductions for charitable gifts through tax returns. Given advances in technology (in both the DGR arena and the methods used to solicit and obtain donations), consideration should be given to collecting tax file information for donations exceeding a specified amount. This will enable greater accuracy in claiming deductions, and data-matching by the ATO. For those PAYG earners who donate on an ad hoc basis (eg to the Red Cross door-knock appeal), the personal allowance arrangements referred to earlier in this submission would reflect an assumed amount of charitable giving.

#### *Gift Aid*

We note the reference in the AFTS Consultation Paper to the Gift Aid arrangements in the United Kingdom, but the associated compliance costs appear burdensome. (In the UK, most individuals don't lodge personal tax returns. To help charities with



donations, a gift aid tax credit mechanism applies.) We consider that the ATO's functions are more effectively confined to tax administration and revenue collection, rather than also being a payment agency for non-tax-related purposes.

#### 4. Tax deductibility

The extent to which tax deductibility influences both decisions to donate and the overall pool of philanthropic funds is an important issue. We support the Productivity Commission in its efforts to further investigate this matter. We believe that tax deductibility at the very low dollar amount (for example 'gold coin' style collections) may not have a significant impact, but is certainly a consideration for anything above small donations.

In relation to competitive neutrality arising from the tax-exempt status of organisations engaged in commercial ventures, the matter has been previously considered in both the Report of the Inquiry into the Definition of Charities and Related Organisations, Treasury, Canberra, 2001 and Charitable Organisations in Australia, Industry Commission, Canberra, 1995, and the existing arrangements were left undisturbed. We support the impact of tax exemptions on "the commercial neutrality of the market" being the subject of further review by the Productivity Commission.

The High Court's recent decision in the *Word Investments* case found that charitable organisations can conduct profit-making enterprises without putting their charitable status – and therefore the organisation's income tax exemption – at risk. The Government announced on 12 May 2009 that it had asked Treasury and the ATO to keep a watching brief on the NFP sector while the outcomes of the Henry Review and this Productivity Commission inquiry are pending.

*3.3. Comments are invited on what factors are impeding the spread of knowledge among Australian not-for-profit organisations regarding how well they deliver their outcomes and key drivers of their efficiency and effectiveness in doing so. Similarly, the Commission invites comment on what factors facilitate the spread of such knowledge and how these might be enhanced.*

We strongly believe the lack of a consistent reporting framework, common terminology and applicable standards, coupled with the multiplicity of federal and state regulations rather than a national regulatory regime, are impeding the spread of such knowledge among Australian NFPs.

Our observations and insights from our 2007 and 2008 PricewaterhouseCoopers Transparency Awards (Appendix 2), are that there is enormous variability in the extent to which organisations (i) use output and outcome indicators to measure their performance, and (ii) disclose their actual and planned performance.

For example, the nature of NFP organisations' activities creates a tendency for most programs and activities to run over extended periods. In order to assess progress effectively, measurable performance targets and trend information, preferably reported voluntarily, would be a welcome development. However, because of the diverse nature of charities' activities, it could be difficult to compare elements of performance even if specific standards existed. Segmental disclosure, for example separating health from aged care, may be beneficial.

While we encourage efforts by participants in the NFP sector themselves to increase the transparency of their reporting, if specific standards are to be developed, we strongly support a principles-based approach.

Other areas affecting the ability of NFP organisations to compare performances within their sector include:

- the composition of fundraising costs, which can differ from one charity to another
- the lack of definition or disclosure of fundraising costs – we saw few examples where fundraising costs were either defined or disclosed, unless disclosure was mandatory under the application of relevant legislation such as the Charitable Fundraising Act 1991
- the typically brief reporting of information about employees and volunteers, which limits insights into the effective use of resources
- the lack of a clear link between strategic direction and activities performed.

### General observations from the Transparency Awards

The NFP sector is becoming increasingly crowded. If organisations are to continue to attract funds and people to deliver their valuable services, they need to focus on how they present themselves – particularly in the current economic environment. Transparent reporting plays a key role in this respect, but until recommendations from previous government inquiries are implemented, reporting in the NFP sector will continue to be affected by a lack of comparability and minimum requirements.

Despite this, we are pleased to report a significant improvement since last year in the standard of reporting by those organisations who nominated for the Transparency Awards.

#### Overview of results

	2007	2008
Nominations	36	44
Organisations nominating for the second time in 2008	-	28
Average score	51%	53%
Average score of organisations nominating for the second time	-	56%
Average score of Top 10	60%	67%

These results reflect that a number of organisations have responded impressively to feedback received following the inaugural 2007 Awards – but that there remains plenty of scope for further improvement across the sector more broadly.

Although the Transparency Awards are limited to organisations that generate over \$10m in annual revenue, the detailed feedback provided in the Jury Report offers information and advice on reporting for NFP organisations of all sizes. The full Jury Report can be found in Appendix 3.

*3.4. Comments are invited on whether the governance and accountability regulations faced by not-for-profit organisations are appropriate and whether they provide sufficient flexibility to account for the diversity of scale and form of not-for-profit organisations. Where such regulations are deemed inappropriate or impose an unnecessary burden, how might they be improved? For example, are there significant regulatory burdens associated with not-for-profit organisations operating across jurisdictions? How might these be addressed?*

We support efforts to implement a national framework and to streamline reporting requirements for the NFP sector. Refer also to our comments in Sections 1.2, 3.2 and 3.3.

*3.5. Comments are invited on the extent to which general regulatory reform under the national reform agenda is benefiting not-for-profit organisations or whether more focused reforms are needed to benefit the sector. If the latter, what specific reforms might be needed?*

PwC supports efforts at the Senate level to simplify the regulatory reporting landscape for all Australian organisations, including NFPs, and encourages any moves for these reforms to be made as quickly as possible. We encourage the creation of a sustainable platform of reform rather than a once-off review. In our view a national regulator will help facilitate continuous improvement.

*3.6. To what extent are government agencies moving to 'lead provider' relationships – to the potential exclusion of smaller not-for-profit organisations – and is this compromising diversity of not-for-profit organisations and the effectiveness of their operations? What options might lessen the potential loss of provider diversity that such a trend might otherwise cause?*

We believe governments and the NFP sector should comment on this question. However, our roundtable discussions highlighted a definite need for diversity in the NFP sector – larger organisations are needed in terms of economies of scale, and smaller ones are needed in terms of facilitating innovation. It was also noted that the rigour and detail required in some government tenders does create a barrier to entry. For example, sometimes the cost of tendering for a government grant outweighs the benefits of the grant. Sometimes this indirectly creates a situation of a larger NFP being the lead provider and they inturn sub-contracting to smaller NFPs.

*3.7. Comments are invited on how the environment within which not-for-profit organisations operate might be changed to enhance the advocacy role of not-for-profit organisations.*

We fully support the recommendations of the Senate Inquiry that a unit be established within the Department of Prime Minister and Cabinet for dealing with issues in the NFP sector, and that a single independent national regulator be appointed for NFP organisations. If this regulator has a similar function to regulators overseas, particularly in the United Kingdom (eg maintenance of a register, dealing with complaints, an education function, development of best practice), this will help significantly in giving the NFP sector a clear voice in the community.

## 4. Service delivery

*Against this background, the comments are invited on the efficiency and effectiveness of arrangements associated with the provision of government funded services. Specifically, the Commission seeks comments on:*

- opportunities for improving funding and contractual arrangements to promote better outcomes*
- the effectiveness of existing accountability and reporting requirements, including options for improvement*
- how changes in service delivery requirements have affected the effectiveness of not for profit organisations and what changes to those requirements might be warranted to enhance their effectiveness*
- the effectiveness of arrangements for trialling or piloting new approaches to service delivery*
- the effectiveness of program and service delivery evaluation arrangements*
- the extent to which governance and reporting requirements associated with funding and contracted arrangements have replaced ‘black letter’ regulation*

*Where possible, participants should support their views with evidence. Comments on the extent to which arrangements are necessary to enhance transparency and accountability would also be appreciated.*

We believe the efficiency and effectiveness of arrangements with the government should be commented on by NFP organisations directly. However, during our roundtable discussions, a number of practical challenges were raised. For example:

- Short-term funding from government or donors tends to be linked to short-term goals. There needs to be a better mix of funding partnerships representing short and longer-term timeframes. Longer-term partnerships acknowledge that some funding to cover running costs and to facilitate the achievement of longer-term goals is necessary in an efficient organisation.
- When the time available to apply for funds is limited, it can be prohibitive for some NFPs. Lack of available time and resources can inhibit their ability to strategically consider proposals on offer.
- While piloting new approaches to service delivery does occur in partnership with government, the results of such pilots are often not made available for others to replicate any innovative approaches.
- The need for education about philanthropy, good governance and good reporting was also reiterated at our roundtable discussions. While the consensus was that clearly that it is the sector’s responsibility to educate the public, the government also needs to educate those working in its departments who partner with NFPs.

## 5. Trends and developments

*5.1. What are the most significant trends and developments that have impacted on the efficiency and effectiveness of the not-for-profit sector? How has the sector responded to these? Are there emerging trends and developments which are likely to impact on the future capacity of the sector?*

### Impact of the global financial crisis

The current economic climate means that NFPs, with few exceptions, are facing difficulties through decreased returns from investment and a lack of liquidity in sourcing funds from both government and public fundraising. At the same time, the climate has created an increasing demand for their services.

The recent announcement by Vision Australia to cut 90 jobs and close some of its regional centres is unlikely to be the last action of this kind from the NFP sector. CEO Gerard Menses says Vision Australia had no choice but to shed jobs after its income dropped 17 per cent because of the global financial crisis. "We are heavily reliant on investments and bequests for a large percentage of our income," he said. "Twenty-eight per cent of our income comes from government and all our services are free. So as the market has fallen, so too has our income and we have a \$13 million gap that we now need to find."

In conjunction with the Fundraising Institute of Australia and Centre for Social Impact, PwC is currently undertaking a survey of charities to assess the impact of the global financial crisis. Results should be available in June and will cover the impact of the crisis so far and the anticipated impact going forward.

### Looking to the future

Future regulatory changes need to encourage sustainability of the NFP sector, making these organisations stronger and better able to survive into the future. NFPs themselves should be encouraged to investigate opportunities for partnering with appropriate organisations. Partnerships will likely be the key to many organisations not only surviving, but having an even more effective influence on the communities in which they operate.

## Appendix 1

### PwC submissions and other information available on the web

- 1) Summary of recommendations from the Senate Inquiry into the Disclosure Regimes for Charities and Not-for-Profit Organisations (December 2008)

Refer to Appendix 1 of the Senate's summary of recommendations. PwC's submission is number 61.  
[www.aph.gov.au/Senate/committee/economics\\_ctte/charities\\_08/report/index.htm](http://www.aph.gov.au/Senate/committee/economics_ctte/charities_08/report/index.htm)

- 2) PwC Submission to the Treasury Inquiry into Public Companies Limited by Guarantee (2007)

<http://www.treasury.gov.au/documents/1316/PDF/PricewaterhouseCoopers.pdf>

- 3) Summary of recommendations from the Inquiry into the Definition of Charities and Related Organisations June 2001

[www.cdi.gov.au/html/report.htm](http://www.cdi.gov.au/html/report.htm)

- 4) The results of research into payroll giving, March 09 : The Giving Business

[www.australiacouncil.gov.au/\\_data/assets/pdf\\_file/0003/49224/The\\_Giving\\_Business\\_-\\_report\\_final.pdf](http://www.australiacouncil.gov.au/_data/assets/pdf_file/0003/49224/The_Giving_Business_-_report_final.pdf)

- 5) PwC Submission to the Henry Tax Review

Refer to pages 45 to 48 for comments on the NFP sector

[http://www.pwc.com/extweb/aboutus.nsf/docid/299CC291277AF515CA2574F10002177C/\\$file/FutureTaxSystem08.pdf](http://www.pwc.com/extweb/aboutus.nsf/docid/299CC291277AF515CA2574F10002177C/$file/FutureTaxSystem08.pdf)

## Appendix 2 Overview of the PricewaterhouseCoopers Transparency Awards

We introduced the PwC Transparency Awards (the Awards), in collaboration with the Institute of Chartered Accountants in Australia (the Institute) and more recently, with the Centre for Social Impact (CSI), to encourage ongoing improvement in the quality and transparency of reporting in the NFP sector. Prior to introducing the Awards, we consulted with, and received strong support from the sector for the concept of the Awards to help set measurable accepted benchmarks and consistency in reporting across the sector.

The self-nomination process resulted in voluntary submissions from NFPs raising more than \$10 million annually being received from 36 organisations. Each organisation received an individual feedback report with recommendations for improvement in their reporting content and presentation.

Organisations were asked to meet the following criteria before submitting their annual report, website and other external reports to the Awards:

- Have deductible gift receipt (DGR) status
- Be endorsed by the ATO for charity tax concessions
- Have audited accounts
- Generate revenue >\$10m
- Not be an educational institution or a religious institution (other than one directly related to the provision of charitable community work).

### Award Assessment Framework

1. The assessment framework used for the Awards is based on PricewaterhouseCoopers' Reporting Framework, the Institute's research and the Global Reporting Initiative's reporting guidelines. The criteria cover each of the following sections:
  - About the organisation
  - Meeting the need
  - Strategy and mission
  - Structure and vision
  - Performance
  - Financial performance and position
  - Scene setting
  - Overall assessment

## Review Process

- Each organisation nominating for the Awards submitted its annual report and other information used to communicate with its stakeholders (eg. website, donor magazines, etc)

## Review of the submissions

Three step process:

1. Rigorous review by PwC reporting experts against the assessment framework.
2. Shortlisted organisations reviewed by judging committee:
  - Kevin Clarke, Senior Lecturer, School of Accounting, The University of New South Wales, representing CSI
  - John Gordon, Ex-PwC Partner and experienced NFP auditor
  - Graham Meyer, CEO, ICAA and
  - Rick Millen, PwC Foundation Partner
3. External Jury reviewed the judging committee's shortlist to select winners. Members of the Jury were:
  - Senator Ursula Stephens, Parliamentary Secretary for Voluntary Sector and Social Inclusion
  - Mr Mike Wilson, CEO, Juvenile Diabetes Research Foundation
  - Mr Peter Hunt, Executive Chairman, Caliburn Partnership Pty Ltd
  - Ms Gina Anderson, CEO, Philanthropy Australia

The Jury's report summarising all findings and observations was made publicly available on the Awards website. The report includes some timely and relevant observations and is disclosed at Appendix 7.



## Appendix 3 Jury Report from the 2008 PricewaterhouseCoopers Transparency Awards

### Jury report

#### April 2009

This report marks the completion of the second year of the PricewaterhouseCoopers Transparency Awards.

PricewaterhouseCoopers, in collaboration with the Institute of Chartered Accountants in Australia and the Centre for Social Impact, conducts the Awards to recognise the quality and transparency of reporting in the Australian not-for-profit (NFP) sector and to encourage the ongoing improvement of NFP reporting generally.

We are pleased to report that the Awards attracted a 22% increase in participation this year, and we noted a significant (sometimes very significant) improvement in the quality and transparency of reporting compared to last year.

This report contains our observations on general trends and reporting issues across the sector (Appendix 1). Our comments incorporate insights gained during the reviews conducted by, first, PwC's subject matter experts, then the Judging Panel and finally the Jury. Further information on the Awards themselves and the process undertaken to determine the winner and runner-up is contained in Appendix 2.

The Judging Panel and Jury members are selected to ensure a wide range of experience and knowledge of the NFP sector. This year, our Judging Panel consisted of:

Kevin Clarke	Senior Lecturer, School of Accounting, The University of New South Wales, representing the Centre for Social Impact
Graham Meyer	Chief Executive Officer (CEO), Institute of Chartered Accountants in Australia
Rick Millen	PwC Foundation Partner
John Gordon	Retired PwC Partner and experienced NFP auditor

Our Jury members were also selected to ensure appropriate representation across the government, philanthropic and community sectors. This year, our Jury consists of:

Ursula Stephens	Parliamentary Secretary for Social Inclusion and the Voluntary Sector
Peter Hunt	Executive Chairman, Caliburn Partnership
Gina Anderson	CEO, Philanthropy Australia
Mike Wilson	CEO, Juvenile Diabetes Research Foundation (2007 Transparency Award winner)

### The NFP reporting landscape

Disclosure requirements for charities and other NFP organisations vary, depending on both the particular organisation's legal form of incorporation, and reporting requirements specific to raising funds from the public. There is no single regulatory regime for NFPs in Australia and, perhaps as a consequence, the quality of reporting in the sector is highly variable.

This issue was the subject of a recent Senate inquiry, which recommended that:

- a single independent national regulator be identified
- a national fundraising Act be developed and implemented
- a tiered reporting system be established
- a standard chart of accounts be adopted.

Until these recommendations are implemented, reporting in the NFP sector will continue to be affected by a lack of comparability and minimum reporting requirements. Despite this, we are pleased to report a significant improvement since last year in the standard of reporting by those organisations who nominated for the Awards.

Although the Awards are limited to organisations that generate over \$10m in annual revenue, the detailed feedback provided in Appendix 1 offers information and advice on reporting for organisations of all sizes.

### Overview of results

	2007	2008
Nominations	36	44
Organisations nominating for the second time in 2008	-	28
Average score	51%	53%
Average score of organisations nominating for the second time	-	56%
Average score of Top 10	60%	67%

These results reflect that a number of organisations have responded impressively to feedback received following the inaugural 2007 Awards – but that there remains plenty of scope for further improvement across the sector more broadly.

The NFP sector is becoming increasingly crowded, and, particularly in the current economic environment, organisations need to focus on how they present themselves if they are to continue to attract funds and people to deliver their valuable services. Transparent reporting plays a key role in this respect.

While organisations are moving to embrace all the areas we would expect to be addressed in leading practice reporting, several areas continue to warrant additional attention.

### Summary of findings

The following summary highlights the areas of strength and improvement, and draws attention to those areas which fall short of best practice transparent reporting. More detailed feedback is included after the following summary comments.

- **Strategic direction:** All of the organisations reviewed are very good at explaining their mission, vision and values and describing what they do. However, few focus on strategic direction and draw a clear link between their activity descriptions and their strategy. Understanding its strategic direction is critical to a proper understanding of any organisation. Strategies should be reviewed

and updated as the operating environment changes. Strategic plans also need to include quantified targets against which performance can be measured and reported.

- **Balance between purpose and method:** Each organisation that nominated for the Awards is passionate in their reporting about what they do, and provided a comprehensive description of their activities. However, more focus needs to be given to why they undertake those activities and how efforts are prioritised, so that stakeholders and readers have adequate insight into the effectiveness of an organisation's day to day operations. Balance between what they achieved, how they achieved it, challenges faced, and outcomes and outputs is important to give readers an understanding of both an organisation's purpose and its methodology.
- **Investment in human capital:** This is one of the next frontiers of real opportunity for the NFP sector. Sharing information on how employees are developed and valued is becoming of greater significance as the sector competes for talented resources. We found that while the overall standard of reporting in this area has improved, employees remain a key stakeholder group where reporting is not typically of sufficient depth or insight to be of value to readers.
- **Governance:** Stewardship of the organisation continues to be important. Greater depth of information is required in respect of board operations and composition – particularly why the size and composition of the board is justified for a particular organisation. Additional attention also needs to be given to management's performance and its assessment by the board or governing body.
- **Sustainability:** Sustainability reporting was a strong addition for some organisations this year. Sustainability reports are increasingly expected from larger public companies, and are rightly expected of larger NFPs. Some of the smaller organisations also included a summary outlining their approach and performance in respect of sustainability.

## Conclusion

Organisations should continue to challenge themselves to balance their messages of both purpose and methodology. Consideration of the relevant stakeholder groups, and their information needs, forms the basis of this. The appropriate balance between clarity and conciseness in reporting also presents challenges, but we encourage all NFPs to continue to strive towards finding this balance, and note some of the larger, more complex organisations have done this extremely well in this respect this year.

23 April 2009

## Detailed feedback

### Purpose of the organisation

NFPs consistently report their mission, vision and values, giving stakeholders a clear understanding of the reason for their existence, what they aim to achieve, and generally how they will go about their activities. All organisations reviewed provide this information consistently on their websites and upfront in their written reports.

### Strategy

Consistent with last year, most organisations provide qualitative information about their overarching strategy; however, there is often insufficient information about specific goals and how performance against strategy is measured. In many cases the strategy spans three to five years, but the information does not include where the organisation believes it is in the overall timeframe, its plans to achieve objectives, and any challenges which may affect its ability to achieve all aspects of the plan.

Several organisations provide a detailed strategic plan on their website. It would be helpful to see all organisations include, in their written report, their mission and vision statements followed by at least a

summary of their strategy. This would provide a clear context for the review of their performance for the year. The addition of measurable strategic and reporting of progress against those targets would be considered best practice.

### Financial and operational performance

A key component of NFP reporting is an overview of what the organisation is doing: that is, the activities undertaken throughout the year and the services provided. This is often supported by key statistics, but very few organisations disclose either financial or operational targets against which performance is measured. Nor is long-term trend information well reported, making assessment of performance over a period of time difficult.

#### *Operational reporting*

Because of the nature of NFP activities, most programs run over extended periods; measurable performance targets and trend information would therefore be a welcome enhancement to reporting. Where statistical data is provided, commentary which explains the trend demonstrated should also be included.

Insufficient insight is provided as to the impact or outcome of activities undertaken. The organisations that scored well in this area consistently reported the outcomes of their efforts. Use of testimonials or case studies is often an effective way to communicate the broader outcomes which support the organisation's reason for being.

We encourage organisations to disclose how they incorporate lessons learnt over time to make them a better and more effective organisation. This enhances readers' understanding of the organisation's ability to adapt to changing environments and learn from mistakes.

#### *Financial reporting*

There were some instances where significant fluctuations in revenues and/or expenses had occurred, with inadequate explanation. A more comprehensive explanation would assist stakeholders in understanding the factors affecting operations during the year.

Several organisations have deficiencies in current assets to current liabilities and are suffering losses due to investment and asset impairments. In most cases, discussion of or reference to these items is confined to the financial report. It would be helpful to address such items in the written report as well, as this would provide valuable insight regarding the organisation's future capacity or viability. Moreover, given the current economic landscape, this will likely become a greater focal point for stakeholders.

### Governance

Robust governance frameworks and processes are important for all organisations, whether they be public or private entities. Our review of NFPs' governance reporting indicates this is an area which needs greater articulation.

Disclosure of qualifications, experience and length of service is common for board or governing body members, but the performance assessment processes and frequency are seldom disclosed.

More attention also needs to be given to reporting the structure and processes of boards and governing bodies including election, re-election, and any limits on membership. The pathways to board membership are often not disclosed, nor adequate insight provided into board composition, such as why larger numbers of board members are required.

Training – both induction and ongoing – is crucial to ensure that individuals charged with the effective oversight of an organisation are properly equipped to perform their role. Also important is an appropriate mix of skills within boards and governing bodies, and evidence that this is considered when new members are appointed.

### Risk management

Risk management policies and procedures is an area that is not well reported, with limited improvement since last year. Little insight is given by most organisations into the major risks they face in their daily operations, particularly operational risks, and disclosure tends to be quite generic. Stakeholders wish to understand the risks faced by an organisation and how those risks are being managed; they acquire this information through appropriate discussion of the organisation's risk management policies and processes, including the roles of any special committees.

### Stakeholder reporting

Only a small number of organisations specifically disclosed each major stakeholder group and discussed their relationship with each group. Most organisations acknowledged the contribution of their larger stakeholders and supporters, and made mention of the business community generally and sometimes the media. However, two main groups of stakeholders, employees and volunteers, are given insufficient attention in all forms of reporting by a large number of organisations.

### Employees

Reporting on employees has improved since last year, particularly as organisations taking part for a second time have responded to feedback received, but more information would be helpful in respect of:

- number of employees and their deployment across the organisation
- employment policies, such as flexible working arrangements, employee benefits, equal opportunity, and OH&S policies (imperative for those organisations whose employees work in high risk environments)
- training and professional development strategy and programs
- measures of workforce stability, such as employee satisfaction and retention rates
- recognition and reward
- retention policies
- succession planning for key executives and management
- qualifications, experience and length of service of key executives and senior management
- remuneration incentive arrangements (if any) for management, with their key performance indicators and performance against these
- performance assessment processes and frequency for key executives and senior management.

### Volunteers

Information provided about volunteers is generally more detailed than for employees, but tends to be qualitative rather than quantitative. We believe minimum disclosures should include:

- number of volunteers
- details of policies regarding the involvement of volunteers, such as screening processes and the activities that volunteers are involved in

- procedures for preparing volunteers for the activities they will undertake, including any training provided
- deployment of volunteers
- recognition of volunteers.

An indication of the extent of volunteer involvement, either through number of volunteer hours or a \$ value of volunteer contributions, would add greater insight into an organisation's reliance on the voluntary support it receives.

### Stakeholder maps

To ensure all stakeholders are given sufficient attention, we suggest the use of stakeholder maps. These maps help organisations to identify all major stakeholder groups, outline the extent and purpose of the various relationships, and explain how those relationships are managed, including the form and frequency of communications with each group.

### Sources of funds/Fundraising

Charitable organisations rely largely on government funding, public fundraising or a mixture of both. Although the source of funds can be determined from the financial statements, it would be helpful to see a clear statement in the annual report regarding the organisation's reliance, if any, on both forms of funding. Readers could then assess whether the information about funds received and their application is adequate.

#### Government funding

Very little information is provided about the processes undertaken to secure government funding. This is particularly disappointing in organisations where government grants are either the principal or sole source of funds. Very few organisations clearly disclosed their level of reliance on government funding or provided an assessment of their ability to maintain the current levels of funding.

Grants received on the condition that specified services are delivered or criteria fulfilled are referred to as 'reciprocal'. Differentiation between reciprocal and non-reciprocal grants is an area largely ignored by the sector, which limits stakeholders' understanding of commitments placed on an organisation as a prerequisite to receiving and using government funds.

#### Public fundraising

It would be helpful if organisations disclosed their policies regarding public fundraising, the application of those funds, costs incurred in raising those funds, actual fundraising against fundraising targets, and procedures or rules for dealing with complaints from donors. Such disclosures provide readers with confidence that their donated funds will be properly managed and accounted for.

#### Defining fundraising costs

Fundraising costs are rarely disclosed, and when they are it is done inconsistently. It is often unclear what costs have been included or excluded (for example, staffing costs; out-of-pocket expenses). Regardless of what an organisation decides to include or exclude, the decision needs to be made clear to the readers of the report.

#### Revenue models

Information about an organisation's approach to funding and their strategy regarding revenue models was generally very poor. This information can provide stakeholders with greater insight into the

organisation's sustainability. Only one organisation discussed their plans to assess their fundraising models in light of their mature stage of development and probably changing funding requirements.

### Online donations

We noted a trend towards the use of websites as a source of donations. Many of the websites are quite sophisticated, allowing donors to provide credit card details for funds to be drawn down on either a one-off or a regular basis. Websites are also increasingly being used to attract legacies and bequests, with many organisations providing example text to be included in wills.

### In-kind donations

Many organisations benefit from the generous support of corporates or members of the public who donate their time, professional services or goods. While most organisations qualitatively acknowledge this support in the narrative section of their annual report or review, few made adequate disclosure of in-kind donations in their revenue recognition policies. Some organisations noted the difficulties in quantifying the value of these donations and pointed out that these amounts were not brought to account for that reason, but others gave no indication of how these donations were accounted for. We recommend that further consideration be given to accounting for in-kind donations where they are significant, as they contribute to the overall financial performance of the organisation.

### Commercial activities

Commercial activities are an important source of income for some organisations. Best practice disclosures in this regard would include both the revenues and expenses of the commercial activity and its financial contribution to the core activity. Hours of employment provided by the commercial activity would also be useful disclosures in this area.

### Investments

Investments range from the simple, such as cash-at-bank, to the more complex such as unit trusts, shareholdings and financial instruments. Regardless of the complexity of their investment types, very few organisations report sufficient detail about their investment policies. We encourage all organisations to provide details of the management of their investments, including third-party involvement, any limitations on those investments, and the performance of the portfolio against objectives set both in the current year and over a longer timeframe. In light of the current economic climate and potential impacts on investment performance, this area is certain to be given increasing attention by stakeholders.

### Accountability for surplus funds

An area we noted for particular attention is the articulation of a policy for the management and protection of funds raised surplus to an organisation's stated or operational requirements. There needs to be clear accountability for the treatment of surplus funds and relevant, insightful disclosures in the financial statements regarding accounting for reserves and restricted assets.

### Presentation of reports

Issues such as the structure of an organisation, whether it is an affiliate of an overseas organisation, and the extent and location of services provided all affect the amount of information an organisation needs to report. Most organisations strike the right balance between providing the appropriate level of detail to adequately explain their performance for the year, and not overwhelming readers with information.

We found the NFP sector to be imaginative in their presentation of reports, with good use of colour and photographs to complement written text. However, we believe further improvements can be achieved simply by making changes to the overall structure of written documents.

Inclusion of a contents page or table at the front of reports increases their ease of use, as does a glossary or list of abbreviations. We also recommend a greater use of summaries, bulleted text, graphs, charts and tables to ensure reports maximise their visual appeal without detracting from their content.

## Online reporting

The corporate sector's trend towards online reporting, including electronic distribution of reports, is one we are also seeing in the NFP sector. To manage this effectively, organisations must ensure they have a robust communications policy and framework for regular review and update of their website content. Each webpage should, at a minimum, indicate the date of last review, and ideally include the next planned review date.

Many organisations we reviewed have out-of-date material on their websites, or new material, such as the most recent annual review, has not been uploaded. We recommend that organisations ensure the latest annual reports, financial statements and other reviews are available on their website. Historical reports should also be made available for download or online review.

The websites vary significantly in terms of type of information available and ease of use.

## Sustainability reporting

Several organisations have embraced environmental sustainability reporting. Some had produced separate sustainability reports as well as including sustainability plans and their progress in the annual report or review. However, environmental issues are of increasing interest to the community and we believe the sector could be more proactive in communicating with stakeholders about their impact on the environment and how this is being managed and measured.

## International charities

Among the international NFP organisations that nominated for the Awards, we noted improvement in the disclosures describing the relationship between the Australian and the international parent entity. However, there are areas that warrant greater attention, for example:

- explanation of significant relationships with related parties such as other foreign aid organisations
- policies describing fund allocation
- contractual arrangements
- staff interchange programs
- determination of project priorities.

## Organisational size

The complexity and size of some organisations is sometimes used as a justification for a lack of transparency and quality in their reporting. However, we noted that a number of large, complex NFPs, for example, organisations providing international aid, used their size and resources to their advantage and developed innovative approaches to reporting the breadth and nature of their operations and outcomes.

## Accessibility of information

Many of the organisations relied on stakeholders reviewing more than the annual report to gain a complete understanding of the organisation. With such strong competition for donors, it would benefit organisations to collate in the one place all key information for stakeholder decision-making.



## Confidentiality and privacy

A key challenge in transparent reporting can be the constraints placed on organisations through funding contracts or grants. We acknowledge that some information cannot be made available due to privacy or commercial-in-confidence reasons. However, we encourage organisations to build a culture of transparency through disclosure of their failures and learnings – this will send a clear signal of openness and honesty to interested parties.

## Appendix 4 Roundtable discussions: Examples of approaches taken by NFPs

### Examples of outsourced back office functions

- Mission Australia provides support for Many Rivers Organisation in Grafton, NSW, a microfinance/enterprise program for indigenous people. Mission Australia saw some mission similarities to theirs, and the board agreed to provide office, IT, payroll, HR and legal support in addition to assisting Many Rivers set up their governance structure. This support helped Many Rivers to run as a lean organisation, enabling maximum focus on programs for its indigenous clients. It also meant they could go to donors and demonstrate a low-cost structure.
- Non Profit Australia, with the Smith Family as a founding partner, is an entity in start up phase. It was set up to consider a range of back office support functions, including procurement, for the NFP sector.

### Examples of partnerships with other commercial or NFP organisations

- In some of their community facilities, Mission Australia makes space available for smaller community organisations to co-locate.
- The Government's Communities for Children program, now evolving into Parenting Support, involves organisations such as Anglicare, Smith Family and Mission Australia. As facilitating partners in designated communities, they bring together local community groups and stakeholders and make funds available for local projects. This model allows for some flexibility and program innovation.
- The Sisters of Charity and St John of God have collaborated on risk management practices for their health care operations, and have at times outsourced the monitoring of legislative change to legal firms.



