



**PHILANTHROPY**  
*Australia*

**Philanthropy Australia  
Submission to the  
State Services Authority Review of Not-for-Profit Regulation  
April 2007**

**Background**

Philanthropy Australia is the national peak body for philanthropy and is a non-profit membership organisation. Our members are trusts and foundations, corporations, families and individuals who want to make a difference through their own philanthropic giving and to encourage others to become philanthropists. Our mission is to represent, grow and inspire an effective and robust philanthropic sector for the community.

Philanthropic funders, business and individual donors, government regulators and charitable organisations alike are hampered by the lack of consistency in accounting categories and terms across Australia's not-for-profit sector. Unlike other OECD countries, Australia does not provide a set of accounting standards specifically for not-for-profit organisations. This hampers the sector's effectiveness and does not serve the needs of grantmakers, not-for-profit organisations or the wider community.

A second issue for not-for-profit entities is the institutional knowledge management at a government level. Frequent personnel changes in government departments require not-for-profit entities to expend a considerable portion of their scant time resources on re-educating government about the roles, constraints and importance of the not-for-profit sector. This is also an issue for the philanthropic sector, which often finds government personnel both misunderstanding the philanthropic sector's role, and inappropriately referring individuals and organisations seeking funds to the philanthropic sector.

**Not-for-profit entities**

The not-for-profit sector relies heavily on income from government tenders and philanthropic grants, and is increasingly being used by government for the outsourcing of service delivery. However, analysis by the Centre of Philanthropy and Nonprofit Studies at Queensland University of Technology discovered major inconsistencies in the application and acquittal documentation across government departments. The study examined grant documentation from 24 government departments and discovered 129 different revenue line items and 836 different expense line items, with difference occurring both in descriptions and in the accounting treatment for the same kind of expenses. In some cases, there was major inconsistency between different funding programs within the same department. Although no comprehensive study has been produced into the different financial and accounting terms used by philanthropic foundations, we know that they too do not use shared application forms or standard definitions.

This lack of accepted standards substantially increases the compliance costs for not-for-profits, particularly the large number which receive funding from more than one source. As accounting systems are designed to record financial information in one way, unnecessary time and financial outlay must be spent on manually recalculating expenses according to the requirements of each funder.

Adoption of standardised terminology by government departments in applications and acquittals would greatly reduce the administrative burden for not-for-profit organisations, particularly the very large number of small organisations with limited staff numbers, voluntary treasurers and often low levels of financial sophistication.

### **Government, business and philanthropic funders**

The absence of agreed standards and consistent reporting obligations means that not-for-profit organisations can define their costs in different ways, which may not accurately reflect their activities. This actively hampers the useful collection and aggregation of financial data for the not-for-profit sector, and makes accurate comparisons between organisations impossible; there is no way to assess the financial efficiency of an individual organisation, and there are no benchmarks of efficiency for the sector.

The current situation does not ensure transparency or assist in effectively monitoring the performance of not-for-profit organisations. This is an issue, particularly in the light of increasing calls for the sector to become more efficient and accountable. A lack of effective monitoring also leaves the sector vulnerable to fraud and deception.

Adoption of standard terminology would make collection and analysis of aggregate data easy, and would assist grantmakers to assess the efficiency of individual organisations, streamlining the process for the grantmaker. It would also allow a clearer understanding of the operations and activities of not-for-profit organisations, the development of clear benchmarks of efficiency and accurate comparisons between organisations operating in the same field.

### **Recommendations**

There have been numerous calls over the years for a set of standards, from diverse voices across the media, charities, professional bodies and grantmakers. It seems that there is clear agreement that a system should be adopted which takes into account the unique characteristics of not-for-profit organisations and which allows detailed costs and expenses to be applied uniformly across the sector.

Philanthropy Australia recommends:

#### **1. That the Victorian Government implement the Standard Chart of Accounts and data dictionary for Not-for-Profit reporting.**

The Standard Chart of Accounts was developed by Professor Myles McGregor-Lowndes, Centre for Philanthropy and Nonprofit Studies at Queensland University of Technology, in association with the Queensland Treasury. It has been adopted by the Queensland State Government across departments and agencies. It aims to streamline financial accounting procedures, reduce the costs of compliance to community sector organisations, and ensure that reporting data collected is comparable, and therefore useful, to both government and community sector organisations.

#### **2. That the Victorian Government encourage the Australian Accounting Standards Board to develop appropriate accounting standards for the not-for-profit sector.**

The Australian Accounting Standards Board (AASB) has adopted International Accounting Standards, with one series of sector-neutral standards applicable to both for-profit and not-for-profit entities. However, not-for-profit organisations have very different characteristics to profit-making entities, including different objectives, stakeholders, budgetary considerations and operating environments. The same

standards that are applied to businesses are not entirely suitable for not-for-profit entities. Encouraging appropriate accounting standards would enable greater transparency and standardisation, and would assist auditors to assess the financial health of not-for-profit organisations.

**3. That the Victorian Government consider prioritising best practice knowledge management techniques for continuing understanding of the not-for-profit and philanthropic sectors.**

Suggestions include:

- a) That the Government put a priority on sharing knowledge of the not-for-profit and philanthropic sectors between employees within departments – possibly by using a knowledge sharing mechanism such as a departmental wiki.
- b) Increased focus on briefing and handover of information and knowledge when there is changeover of personnel, ensuring that knowledge is retained at the organisational level.
- c) That the Victorian Government collaborate with not-for-profit and philanthropic peak bodies to organise and promote an annual information briefing for government personnel in those departments which will have contact or dealings with not-for-profit entities. The session could be organised to provide informative presentations, fact sheets and question-and-answer sessions.

The provision of such services would facilitate the internal knowledge management of government departments and greatly cut down the time spent on re-education on an individual basis.

**Conclusion**

We believe that these three recommendations would be of great benefit to not-for-profit organisations, the government and the philanthropic sector. Adopting a standard chart of accounts would make significant progress towards streamlining accounting practices, giving guidance to not-for-profit organisations in the development and transparency of their financial statements. This in turn would assist funders, both private and government. It would finally enable accurate measurement of the financial performance of not-for-profits, and all parties would benefit significantly from the simplification of the financial reporting process. Similarly, providing a targeted and intense information briefing for State government personnel would provide an opportunity for learning and information exchange which would allow government to be more assured and knowledgeable in its dealings with the sector. This would in turn greatly lessen the burden of re-education on the not-for-profit sector, enabling a more immediate focus on mutual opportunities and collaboration.