



AUSTRALIAN  
COUNCIL  
FOR  
INTERNATIONAL  
DEVELOPMENT

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**ACFID Response to the  
*Australian Charities and  
Not-For Profits Commission:  
2014 AIS Consultation Paper*  
26 April 2013**

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## Table of contents

Table of contents .....	2
1 Introduction .....	3
2 Scope of this Submission .....	4
3 Recommendations .....	5
3.1 <i>Financial Reporting – Medium and Large Charities</i> .....	5
3.2 <i>Suggested Pro forma Income Statement for Medium and Large Charities</i> .....	6
3.3 <i>Financial Reporting – Small Charities</i> .....	7
3.4 <i>Availability of Financial Statements</i> .....	7
3.5 <i>Incorrect Information reported</i> .....	7
3.6 <i>ACNC Assistance with Financial Reporting</i> .....	7
3.7 <i>Use of Optional Questions on the AIS</i> .....	8
3.8 <i>Signalling Higher Standards</i> .....	8
3.9 <i>Specific Accounting Standards - Charities</i> .....	8
4 Issues of Concern to International Development NPOs .....	8
4.1 <i>Financial Reporting Requirements</i> .....	8
4.2 <i>Education and Training</i> .....	9
5 Conclusion.....	10

## **1 Introduction**

The Australian Council for International Development (ACFID) welcomes the opportunity to make this submission to the Australian Charities and Not-For-Profits Commission regarding the 2014 Annual Information Statement (AIS) Public Consultation Paper.

ACFID unites Australia's non-government aid and international development organisations to strengthen their collective impact against poverty. Our vision is of a world where gross inequality within societies and between nations is reversed and extreme poverty is eradicated.

ACFID's purpose is to provide leadership to the not-for-profit aid and development sector in Australia in achieving this vision and to fairly represent and promote the collective views and interests of our membership.

Founded in 1965, ACFID currently has 109 members and 2 affiliates operating in more than 100 developing countries. ACFID's membership expends \$1.3 billion on humanitarian and development activities and raised \$890 million from over 2 million Australian households (2010/11). 80% of funding is from non-government sources. ACFID's members range between large Australian multi-sectoral organisations that are linked to international federations of NGOs, to agencies with specialised thematic expertise, and smaller community based groups, with a mix of secular and faith based organisations.

The ACFID Code of Conduct is a voluntary, self-regulatory sector code of good practice that aims to improve international development outcomes and increase stakeholder trust by enhancing the transparency and accountability of signatory organisations. Covering over 50 principles and 150 obligations, the Code sets good standards for program effectiveness, fundraising, governance and financial reporting. Compliance includes annual reporting and checks. The Code has an independent complaints handling process. Over 130 organisations belong to the ACFID Code and can be viewed at <http://www.acfid.asn.au>

## **2 Scope of this Submission**

This submission is in response to the Australian Charities and Not-For-Profits Commission (ACNC): 2014 Annual Information Statement (AIS) Public Consultation Paper released on 13 March 2013.

The establishment of a national, independent regulator for charities and community services has been supported by ACFID members. We welcomed the Federal Government's announcement in May 2011 to establish the Australian Charities and Not-For-Profits Commission and have continued to work with our members, Government and the ACNC towards realising this objective.

This submission was written by Cathy Mayer, ACFID Code Compliance Coordinator, in conjunction with the ACFID Code of Conduct Committee and Finance Managers Working Group. It is an ACFID submission but the analysis and/or opinion presented does not necessarily reflect the views of all ACFID member agencies.

### **3 Recommendations**

#### **3.1 Financial Reporting – Medium and Large Charities**

- (a) That the financial reporting requirements for medium and large charities are rewritten, specifically the reporting of expenditure. The proposed expenditure categories will lead to less, rather than greater, transparency and may in fact mislead the public and Government. Expenditure needs to be reported on an activity basis.
- (b) That the lines “Grants and donations made within (outside) Australia” be renamed to “Program Expenses” or “Mission Expenses”. This line can then be broken into 2 or 3 sub-categories such as: “Programs in Australia” and “International Programs”. It is not Not-for-Profits core business to make grants or donations unless under agreement.
- (c) That an optional “Comments / Notes” box be attached to these lines, where more detail could be entered to put the figures into context, such as the main areas of work. While this information cannot be channelled into a set format, it should be made available on the ACNC register for use by the public to increase transparency.
- (d) That the Employee expenses / Salary Sacrifice line be removed from the Income Statement and sought elsewhere in the AIS. The Income Statement would be more useful to the public and government if it provided information about the activities of the organisation.
- (e) That an expenditure line should be added entitled “Governance and Accountability”. The public have a definite interest in the level of expenditure on administrative type functions and this information should be transparent and understandable.
- (f) That there be a requirement for Medium and Large Charities to disclose Non-Monetary income and expenditure, where such income is included in audited financial statements. This includes in-kind and volunteer contributions.
- (g) That consideration be given to disclosing the impairment of assets.
- (h) That an “Asset Revaluation Reserve” (if relevant) and “Reserve Funds” be disclosed on the Balance Sheet. If there are funds included in “Reserve Funds” that are being held for a specific purpose, it is recommended that these funds are disclosed in a Note to the Accounts.

### 3.2 **Suggested Pro forma Income Statement for Medium and Large Charities**

Please refer below our suggested pro forma Income Statement for Medium and Large Charities, taking into consideration our Recommendations detailed above:

## Income Statement

<b>Gross Income:</b>
1. Government grants
i. Commonwealth Grants
ii. State/Territory Grants
iii. Local Grants
2. Other Grants
<b>Total Grants</b>
3. Revenue from providing Services and Sale of Goods
4. Donations and Bequests
5. Other Fundraising Revenue
6. Investment Revenue
7. Non-Monetary Income
8. All Other Revenue
<b>Total Revenue</b>
9. Net Realised Gains
10. Unrealised Gains
<b>Total Gross Income</b>
<b>Expenses</b>
11. Program Expenses (including Employee Costs)
i. Programs in Australia (option comments/notes box)
ii. International Programs (optional comments/notes box)
12. Costs of Providing Services and Sale of Goods (including Employee Expenses)
13. Depreciation and Amortisation (including the Impairment of Assets)
14. Interest and Debt Servicing Costs
15. Governance and Accountability
16. Non-Monetary Expenditure
<b>Total Expenses</b>
<b>Net Surplus/Deficit:</b>

### **3.3 *Financial Reporting - Small Charities***

- (a) We recommend that Small Charities be required to submit less financial information:
- Total Income / Receipts
  - Total Expenses / Payments
  - Total Assets
  - Total Liabilities
- (b) If however, the proposed financial reporting format for Small Charities remains, it needs amendment. As designed, it does not add up. For example, there are some categories reported under Income / Receipts, but not all and there is no “Other Revenue” line to add them up to the “Total Income/Revenue line”. It will cause confusion for the Charity employees preparing the figures and more importantly, the readers of the financial information.

### **3.4 *Availability of Financial Statements***

That there be a question in the AIS to ascertain if or where the Charity’s full Financial Statements can be accessed or how a copy is obtained.

### **3.5 *Incorrect Information reported***

We recommend no penalties for the first 2 years of reporting where Charities have reported incorrect information and it is believed to be in error.

### **3.6 *ACNC Assistance with Financial Reporting***

That extensive education of the sector occurs in preparation for standard financial reporting. Many Charities will need to have the systems in place by 1 July 2013, to enable them to capture the financial information, to report as required for the 1 July 2013 to 30 June 2014 financial year.

We question whether there is sufficient time available to adequately support these Charities.

### **3.7 Use of Optional Questions on the AIS**

We recommend that such optional questions are included in the AIS. Charities would then have the option to answer the questions (relevant to their State regulatory body) and avoid dealing with more than one regulatory body.

### **3.8 Signalling Higher Standards**

That a standard note is included on the ACNC website with all AISs from ACFID members, that “This organisation is a signatory to the ACFID Code of Conduct, a self-regulatory Code which commits to greater transparency and accountability to stakeholders and improved international development outcomes.”

### **3.9 Specific Accounting Standards – Charities**

That specific accounting standards for charities be developed. For example, AASB 139, which is currently required, should not be necessary for NFPs when they are low risk. Australia is the only OECD country without specific accounting standards for Charities.

## **4 Issues of Concern to International Development NPOs**

### **4.1 Financial Reporting requirements**

The first objective listed for the ACNC is: “to maintain, protect and enhance public trust and confidence in the Australian not-for-profit sector”. The proposed format for reporting expenditure for Medium and Large Charities does not satisfy this objective. To the contrary, it threatens the trust the public has in our sector.

Our sector relies heavily on donations from the public. The public want to see how funds are being spent and on what activities. Disclosing the expenditure as Salary & Wages makes the proposed reporting look like the funds are not being directed to the beneficiaries. The public are more likely to draw inappropriate conclusions about our members and their activities and lose faith in our sector. The ACFID Code of Conduct requires member organisations to disclose expenses by activity according to defined headings.



We need to engender trust and support from the public, for the aid sector and the not-for-profit sector more broadly. To achieve this, the AIS needs to provide meaningful information that would enable the public to find out how much is spent towards the mission of the organisation, raising funds and accountability & administration etc. By not using activity-based financial reporting, the public will not be able to obtain this information from the ACNC web site and the information that will be on the ACNC web site will be irrelevant and misleading. This is likely to cause damage to our sector and the broader NFP sector.

The proposed expenditure headings are more focussed on collecting data for the ATO / Treasury and do not provide meaningful information to the public. If the ATO requires specific information such as salary sacrifice, depreciation, interest etc., such information should be requested elsewhere in the AIS, if not already collected by the ATO or other Commonwealth department and not in the Income Statement. For example, employee expenses are generally reported through the regular BAS process to the ATO.

## **4.2 Education and Training**

ACFID's experience in educating signatories to the Code about financial reporting requirements, suggests that extensive education is required to ensure members understand the definitions and how to compile financial information.

The ACNC's education portal and educational materials should be developed in consultation with the peak bodies. ACFID has a wealth of information to share from our journey with self-regulation over the last 15 years.

ACFID's Learning and Development materials can be accessed through the website ([www.acfid.asn.au](http://www.acfid.asn.au)). Of particular interest may be the following training materials:

- ACFID's 2013 Training Calendar: <http://www.acfid.asn.au/learning-development/l-d-calendar-2013>
- ACFID's on line Code of Conduct training: <http://www.acfid-elearning.org/>
- ACFID's Webinars, Annual and Financial Reporting: <http://www.acfid.asn.au/learning-development/resources>

## **5 Conclusion**

The first objective listed for the ACNC is “to maintain, protect and enhance public trust and confidence in the Australian not-for-profit sector”. The proposed financial reporting template does not appear to achieve that objective. It may well be significantly damaging to the sector by decreasing public trust. To ensure public confidence about where public donations are directed, we recommend expenditure be dissected by activity. We consider the proposed template will significantly damage our sector.

With the standard financial reporting commencing 1 July 2013, we have concerns that there is insufficient time available, to provide the necessary training and support to Charities, to enable them to have the financial systems in place, to capture the required financial information in time.

We are ready and available to answer further questions on our submission and to provide further assistance to the ACNC.