

# Reporting of service performance information by charitable companies

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## BACKGROUND

- What is a Not-for-Profit?

- NFPs are organisations that are prohibited from distributing profits to owners, members or other groups of individuals (Hansmann, 1980).

- Australia only defines NFP in tax legislation. A NFP is,

“generally an entity with a community or social purpose...[and] does not provide any private benefit, directly or indirectly, to a related party, such as trustee, member, director, employee, agent or officer of a trustee, donor, founder, or to an associate of any of these entities) (other than reasonable remuneration for services provided or re-imbursement of related costs)” (Paras 1.104 and 1.103, Tax Laws Amendment (Special Conditions for Not-for-Profit Concessions) Bill 2012).



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## BACKGROUND

- Charities are a type of NFP that pursues a charitable purpose for the benefit of the public (*Charities Act 2013*).
- Charitable purpose includes health, education, social or public welfare, religion, culture, promoting tolerance between groups or individuals, promoting or protecting human rights, security or safety of the public, preventing or relieving suffering of animals and the environment.



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## AUSTRALIAN NOT-FOR-PROFIT SECTOR

- NFP sector is competitive and economically significant:
  - 600,000 NFPs in Australia of which 54,091 are registered with the Australian Charities and Not-For-Profits Commission (ACNC) as at 8 October 2015 (ACNC, 2015).
  - Contribute \$57.7 billion (or over 4%) in Gross Domestic Product (GDP), employ nearly 1.082 million in the Australian workforce and attract approximately 3.9 million volunteers (Australian Bureau of Statistics (ABS), 2015).
  - Charities comprise approximately 10% of all NFP organisations (ACNC, 2013).
- NFPs adopt one of several legal forms. Most commonly:
  - Companies limited by guarantee
  - Incorporated associations
  - Unincorporated associations
  - As at 27 January 2014, 6,550 companies limited by guarantee and registered bodies were registered with the ACNC (ASIC, 2014).



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## AUSTRALIAN NOT-FOR-PROFIT SECTOR

### Number of NFPs

Type of Organisation	1995-96	2008-09
Companies limited by guarantee	9 000	11 700
Incorporated Associations	120 000	136 000
Cooperatives	3 000	1 850
Body Corporates	180 000	103 000
Organisations incorporated by other methods <sup>a</sup>	8 000	9 000
Unincorporated associations <sup>b</sup>	380 000	440 000
<b>Total third sector</b>	<b>700 000</b>	<b>≈ 700 000 <sup>c</sup></b>
Excluding body corporate entities	180 000	103 000
Financial and insurance mutuals <sup>d</sup>	2 000	2 000
Trading cooperatives <sup>d</sup>	700	450
<b>Total not for profit sector</b>	<b>517 300</b>	<b>≈ 600 000 <sup>c</sup></b>

<sup>a</sup> Including those incorporated under industrial legislation (such as trade unions and employer associations); the Aboriginal Councils and Associations Act; Friendly Society Acts; Education Acts; and specific acts of parliament. <sup>b</sup> The 2008-09 total for unincorporated associations is estimated from the Lyons and Hocking estimate for 1995-96 adjusted for population growth. <sup>c</sup> Reflecting the uncertainty involved in some of the 2008-09 estimates, totals are presented as approximate values only. <sup>d</sup> The number of financial and insurance mutuals and trading cooperatives is taken from the industry classification provided by Lyons and Hocking (2000). Numbers are rounded to the nearest hundred.

Sources: Lyons and Hocking (2000); Commission estimates; State and Territory Fair Trading Offices (or equivalent); ASIC (pers. comm., 18 September 2009); APRA (pers. comm., 10 September 2009).

Source: Productivity Commission, 2010.

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## SERVICE PERFORMANCE INFORMATION

- Service performance information conveys an organisation's performance objectives, achievements and services as well as mission effectiveness and efficiency (International Public Sector Accounting Standards Board (IPSASB), 2013).
- Service performance information often involves effectiveness, efficiency, input, output, outcome, performance indicator and objective information.
- In the US, charities are required to report the charity's mission, revenues and expenses of the charity's three largest program services and a breakdown of program-related, fundraising and administrative expenses in the statement of program service accomplishment section of their Form 990 to the Internal Revenue Service.
- Service performance information largely unregulated in Australia.

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## EXCERPT FORM 990

Form 990 (2014) Page **2**

**Part III** **Statement of Program Service Accomplishments**  
 Check if Schedule O contains a response or note to any line in this Part III ☐

**1** Briefly describe the organization's mission:

.....

.....

.....

**2** Did the organization undertake any significant program services during the year which were not listed on the prior Form 990 or 990-EZ? ☐ **Yes** ☐ **No**  
 If "Yes," describe these new services on Schedule O.

**3** Did the organization cease conducting, or make significant changes in how it conducts, any program services? ☐ **Yes** ☐ **No**  
 If "Yes," describe these changes on Schedule O.

**4** Describe the organization's program service accomplishments for each of its three largest program services, as measured by expenses. Section 501(c)(3) and 501(c)(4) organizations are required to report the amount of grants and allocations to others, the total expenses, and revenue, if any, for each program service reported.

**4a** (Code: ..... ) (Expenses \$ ..... including grants of \$ ..... ) (Revenue \$ ..... )

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## AUSTRALIAN REGULATORY ENVIRONMENT

- Regime 3 (2013 - ongoing)
  - Establishment of a national charity regulator, Australian Charities and Not-For-Profits Commission (ACNC).
  - ACNC applies to charities of all legal forms (NFPs do not report to the ACNC).
  - Replace ASIC as the reporting regulator for charitable companies limited by guarantee.
  - Designed to be one-stop shop for reporting to avoid duplication of efforts.
  - But incorporated associations and unincorporated associations may need to meet state requirements.
  - Though registration with the ACNC is not mandatory, charities must report if they wish to access tax concessions.

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## AUSTRALIAN REGULATORY ENVIRONMENT

- Regime 3 (2013 - ongoing)
  - Three tier reporting system and auditing requirements based on size for lodgement of annual reports (small, medium, large).
  - Basic religious charities exempt from financial questions on AIS and submitting annual reports.
  - All charities regardless of size required to submit Annual Information Statement (AIS).
  - AIS and annual reports publicly available via the ACNC website at no cost.
  - Charitable companies no longer lodge annual reports with ASIC, though incorporated associations and unincorporated associations may need to meet state requirements.
  - Charities now need to comply with five governance standards which aim to improve transparency and accountability.



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## SUMMARY OF ACNC REQUIREMENTS

Tier	Non-profit size	Reporting requirements	Audit/Review requirements
1	Small charities (annual (or consolidated) revenues less than \$250,000).	Annual Information Statement	None
2	Medium charities (annual (or consolidated) revenues at least \$250,000 but less than \$1 million).	Annual Information Statement Annual Report	Review of financial reports
3	Large charities (annual (or consolidated) revenues at least \$1 million or greater).	Annual Information Statement Annual Report	Audit of financial reports

Source: ACNC, 2013.



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## AUSTRALIAN REGULATORY ENVIRONMENT

- Regime 3 (2013 - ongoing)

- Consequences for not reporting include:

- Administrative penalties apply
      - Small charities - \$170 to \$850
      - Medium charities - \$340 to \$1700
      - Large charities - \$850 to \$4,260
    - The ACNC maintains a publicly available online list of charities that have not met reporting requirements or breached governance standards.
    - As of June 2015, 5,500 charities have lost their registration with the ACNC for failing to meet their reporting requirements for two consecutive years.



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## AUSTRALIAN REGULATORY ENVIRONMENT

- Reporting statistics from ACNC (ACNC, 2015):

- 32,519 charities had filed a 2014 AIS (21,317 small charities, 5,420 medium charities, 5,782 large charities).
  - 4,563 medium charities and 5,319 large charities had submitted an annual financial report.
  - 3,241 medium charities indicated they provided general purpose financial statements and 1,450 indicated they provided special purpose financial statements (**30.9% not reporting entities**).
  - 3,668 large charities indicated they provided general purpose financial statements and 1,524 indicated they provided special purpose financial statements (**29.4% not reporting entities**).



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## OTHER REGULATION

- Fundraising charities are required to report service performance information under the relevant state fundraising legislation (e.g., *Charitable Fundraising Act (NSW) 1991*).
- Residential care charities are required to provide additional financials in the notes to the financial statements under AASB 8 and *Residential Care Subsidy Principal 1997*.



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## EXAMPLE OF SERVICE PERFORMANCE REPORTING IN FUNDRAISING CHARITY

### 17. CHARITABLE FUNDRAISING ACT (NSW) 1991 AND REGULATIONS

The Company has an authority to fundraise for charitable purposes under the Charitable Fundraising Act (NSW) 1991 – Authority Number CFN 18192.

Fundraising appeals conducted during the financial period included various raffles and other general fundraising activities. Fundraising income is also generated via donations to the Company.

	2013 \$	2012 \$
<b>Results of fundraising appeals</b>		
(1) Gross proceeds from fundraising appeals	4,935	5,077
Less: Direct costs of fundraising appeals	(1,313)	(152)
Net surplus obtained from fundraising appeals	3,622	4,925
(2) Application of surplus obtained from fundraising appeals	7,821	3,480
Distributions to the Company's operations (expenditure on direct services)	-	-
Net surplus held in cash for future needs	13,698	17,731



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## EXAMPLE OF SERVICE PERFORMANCE REPORTING IN FUNDRAISING CHARITY

	2013 \$	%	2012 \$	%
(3) Fundraising Comparisons				
Total cost of fundraising/gross proceeds from fundraising	1,313/4,935	26.6%	151/5,077	2.9%
Net surplus from fundraising/gross proceeds from fundraising	3,622/4,935	73%	4,925/5,077	97%
Total expenditure on direct services/total fundraising expenditure	0/0	0%	0/0	0%
Total expenditure on direct services/gross proceeds from fundraising	0/4,935	0%	0/5,077	0%

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## EXAMPLE OF SERVICE PERFORMANCE REPORTING IN RESIDENTIAL CARE CHARITY

### Note 19 - Residential aged care segment

The following information is provided in compliance with Part 10, Division 4 of the Residential Care Subsidy Principles 1997 which deems residential care to be a reporting segment for the purposes of AASB 8: Operating Segments.

		Income Statement			
		2013 \$	2012 \$	2013 \$	2012 \$
Revenue					
<b>Operating revenue</b>					
Government subsidies	4,232,561	3,924,447	Wages - care	2,667,513	2,630,532
Resident charges	1,852,112	1,813,458	Wages - administration	539,638	435,398
Bond retentions	58,210	58,200	Wages - other	640,048	649,993
Interest	7,517	19,164	Management fees	-	-
Trust distributions	-	-	Depreciation & amortisation	273,819	253,067
Donations and contributions	-	-	Interest	28,559	32,624
Other operating revenue	501	270	<b>Bad debts</b>	-	-
<b>Total operating revenue</b>	<b>6,150,901</b>	<b>5,815,539</b>	<b>Donations/fund raising</b>	<b>-</b>	<b>-</b>
<b>Non-operating revenue</b>					
Capital grants	-	-	Fees & charges	-	-
Profit on sale of assets	-	-	Gas & power	136,715	109,664
Revaluation increase	-	-	Insurance	116,941	165,298
Insurance claims	-	-	IT & communications	76,631	50,939
Other non-operating revenue	-	-	Motor vehicle expenses	-	-
<b>Total non-operating revenue</b>	<b>-</b>	<b>-</b>	Rents & rates	52,313	35,422
			Repairs & maintenance	157,224	146,737
			Wages "on costs"	545,965	545,294
			Other expenses	1,191,288	1,143,715
<b>Total revenue</b>	<b>6,150,901</b>	<b>5,815,539</b>	<b>Total expenses</b>	<b>6,426,654</b>	<b>6,198,683</b>
<b>Net segment profit (loss)</b>	<b>(275,753)</b>	<b>(383,144)</b>			

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## SUMMARY OF MANDATED SERVICE PERFORMANCE INFORMATION

Service performance information item	ASIC Regime (pre-2010) (No tiered system) All companies limited by guarantee regardless of size	ASIC Regime (2011-2012) (Tiered system) All companies limited by guarantee that submit an annual report)*	ACNC Regime (2013-onwards) (Tiered system applicable regardless of legal form)
Principal activity (i.e. type of charity)	✓	✓	✓
Description of the short and long term objectives.	x	✓	x
Charity's strategy for achieving those objectives.	x	✓	x
How the charity's activities assisted in achieving its objectives.	x	✓	x
How the charity measures its performance, including any key performance indicators used by the entity.	x	✓	x
How did the charity pursue its main purpose in the last 12 months?	x	x	✓
How will the charity pursue its main purpose in the next 12 months?	x	x	✓
Who currently benefits from the charity's activities?	x	x	✓
Number of employees.	x	x	✓
Number of volunteers.	x	x	✓

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## WHAT INFORMATION DO STAKEHOLDERS WANT AND IS THIS INFORMATION PROVIDED?

- Mean rankings of importance have decreased for all service performance information items from 2013 to 2015.
- Mean perception of provision of information has increased for four of service performance information items from 2013 to 2015.
- Gaps between stated importance and perceived provision of service performance information has reduced from 2013 to 2015.
- Gap between stakeholders' information needs and provision of information remains largest for efficiency information (e.g., proportion of total funds to administrative costs, proportion of total funds spent on the charity's work).

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# WHAT EFFECT DOES THE AUSTRALIAN CHARITY REGULATORY FRAMEWORK HAVE ON THE PROVISION OF INFORMATION BY CHARITIES?



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## DESCRIPTIVE STATISTICS

	Minimum	Maximum	Mean	Median	Standard Deviation
<i>REPORTING_SCORE</i>	0.000	8.000	2.778	4.000	1.497
<i>REPORTING_INDEX</i>	0.000	0.889	0.310	0.333	0.166
<i>NUMBER_MEMBERS</i> <sup>1</sup>	0.000	8,110.000	408.410	11.000	1,425.050
<i>BIG4</i>	0.000	1.000	0.120	0.000	0.325
<i>FUNDRAISING_CHARITY</i>	0.000	1.000	0.088	0.000	0.283
<i>TOTAL_REVENUES</i> (in \$m)	0.000	134.000	6.341	1.310	15.600
<i>DONATIONS_RATIO</i>	0.000	1.000	0.183	0.009	0.303
<i>GRANTS_RATIO</i>	0.000	1.000	0.311	0.092	0.354
<i>MEMBERSHIP_FEES_RATIO</i>	0.000	0.970	0.038	0.000	0.133
<i>FUNDRAISING_RATIO</i>	0.000	0.873	0.023	0.000	0.107
<i>SPONSORSHIP_RATIO</i>	0.000	0.993	0.020	0.000	0.092
<i>OTHER_REVENUE_RATIO</i>	0.000	1.000	0.413	0.320	0.356
<i>TOTAL_ASSETS</i> (in \$m)	0.000	507.000	12.600	1.422	45.500
<i>AGE</i>	0.000	14.000	8.407	9.000	3.787
<i>LEVERAGE</i>	0.000	419.360	1.606	0.361	16.588

<sup>1</sup>Based on a reduced sample of 485 firm year observations.



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## WHAT DO CHARITIES REPORT?

Performance and service information	2013	2014
	(n = 135)	(n = 120)
How the charity uses donations	8 5.93%	9 7.50%
Impact of charity's work	19 14.07%	20 16.67%
The proportion of total funds spent on the charity's work	6 4.44%	6 5.00%
Programs and services the charity delivers (including the charity's activities)	64 47.41%	59 49.17%
The proportion of total funds spent on administrative costs	2 1.48%	2 1.67%
The charity's beneficiaries	125 92.59%	114 95.00%
Charity's objectives	69 51.11%	71 59.17%
Type of charity (including general problem or need area(s) with which the charity is dealing).	132 97.78%	118 98.33%
Charity's fundraising costs	25 18.52%	19 15.83%
Categorises expenses into program-related, fundraising and administration activities	11 8.15%	10 8.33%

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## RESULTS

- In comparison to performance and service information, financial information types are reported in accordance with stakeholders' information demands.
  - The provision of simplified financial reports by charities is consistently higher than detailed financial reports
- Findings indicate that though the reporting relevance gap between stakeholders' information preferences and Australian charities' reporting practices has narrowed slightly over time, a reporting relevance issue remains.
- Findings provide evidence that regulation is important in motivating Australian charities to report stakeholder relevant information. While most Australian charities respond to coercive pressures to provide information, the majority of charities do not respond to normative pressures to provide stakeholder relevant information.

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## WHAT DO CHARITIES REPORT (BY INDUSTRY)?

	Culture and recreation (n = 96)	Education and research (n = 227)	Health (n = 279)	Social services (n = 77)	Religion (n = 97)	Other <sup>1</sup> (n = 136)
<b>Performance and service information</b>						
How the charity uses donations	5 5.21%	12 5.29%	31 11.11%	14 18.18%	0 0.00%	16 11.76%
Impact of charity's work	20 20.83%	27 11.89%	29 10.39%	19 24.68%	4 4.12%	13 9.56%
The proportion of total funds spent on the charity's work	0 0.00%	7 3.08%	23 8.24%	6 7.79%	0 0.00%	2 1.47%
Programs and services the charity delivers (including the charity's activities)	40 41.67%	66 29.07%	82 29.39%	26 33.77%	28 28.87%	46 33.82%
The proportion of total funds spent on administrative costs	0 0.00%	5 2.20%	0 0.00%	3 3.90%	0 0.00%	0 0.00%
The charity's beneficiaries	60 62.50%	151 66.52%	221 79.21%	73 94.81%	54 55.67%	103 75.74%
Charity's objectives	31 32.29%	78 34.36%	138 49.46%	31 40.26%	11 11.34%	47 34.56%
Type of charity (including general problem or need area(s) with which the charity is	85 88.54%	211 92.95%	271 97.13%	75 97.40%	89 91.75%	133 97.79%
Charity's fundraising costs	15 15.63%	28 12.33%	50 17.92%	26 33.77%	8 8.25%	28 20.59%
Categories expenses into program-related, fundraising and administration activities	3 3.13%	28 12.33%	32 11.47%	1 1.30%	0 0.00%	23 16.91%

Industry classification based on the International Classification of Non-Profit Organisations, which groups NFPs based on their primary activity.

<sup>1</sup> Other comprises environment, development and housing, law advocacy and politics, philanthropic intermediaries, international, business and professional associations and other.



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## WHAT DO CHARITIES REPORT (BY SIZE)?

	Small charities (annual (or consolidated) revenues less than \$250,000) (n = 223)	Medium charities (annual (or consolidated) revenues at least \$250,000 but less than \$1 million) (n = 202)	Large charities (annual (or consolidated) revenues at least \$1 million or greater) (n = 486)
<b>Performance and service information</b>			
How the charity uses donations	8 3.59%	14 6.93%	56 11.52%
Impact of charity's work	15 6.73%	18 8.91%	79 16.26%
The proportion of total funds spent on the charity's work	4 1.79%	13 6.44%	21 4.32%
Programs and services the charity delivers (including the charity's activities)	48 21.52%	72 35.64%	169 34.77%
The proportion of total funds spent on administrative costs	0 0.00%	2 0.99%	6 1.23%
The charity's beneficiaries	128 57.40%	144 71.29%	390 80.25%
Charity's objectives	34 15.25%	64 31.68%	237 48.77%
Type of charity (including general problem or need area(s) with which the charity is	200 89.69%	192 95.05%	471 96.91%
Charity's fundraising costs	21 9.42%	24 11.88%	110 22.63%
Categories expenses into program-related, fundraising and administration activities	15 6.73%	15 7.43%	57 11.73%



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## APPLICATION OF AASB 1053 (REPORTING ENTITY)

	Pre-AASB 1053		Early adopted on AASB 1053				AASB 1053 effective	Total number and mean reporting frequency across sample period
	FY08	FY09	FY10	FY11	FY12	FY13	FY08	
	(n = 136)	(n = 152)	(n = 130)	(n = 127)	(n = 111)	(n = 101)	(n = 92)	
Tier 1 GPFR	20 14.71%	21 13.82%	11 8.46%	11 8.66%	10 9.01%	9 8.91%	7 7.61%	89 10.48%
Tier 2 GPFR	66 48.53%	79 51.97%	76 58.46%	78 61.42%	71 63.96%	59 58.42%	56 60.87%	485 57.13%
SPFR	50 36.76%	52 34.21%	43 33.08%	38 29.92%	30 27.03%	33 32.67%	29 31.52%	275 32.39%

<sup>a</sup> 34 charitable companies in the sample did not submit a financial report for FY13

<sup>b</sup> 28 charitable companies in the sample did not submit a financial report for FY13



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## WHAT DO CHARITIES REPORT (BY TYPE OF FINANCIAL REPORT)?

	SPFR (n = 275)	Tier 2 GPFR (n = 485)	Tier 1 GPFR (n = 89)
<b>Performance and service information</b>			
How the charity uses donations	16 5.82%	57 11.75%	5 5.62%
Impact of charity's work	47 17.09%	49 10.10%	10 11.24%
The proportion of total funds spent on the charity's work	8 2.91%	29 5.98%	1 1.12%
Programs and services the charity delivers (including the charity's activities)	83 30.18%	152 31.34%	30 33.71%
The proportion of total funds spent on administrative costs	4 1.45%	4 0.82%	0 0.00%
The charity's beneficiaries	186 67.64%	374 77.11%	44 49.44%
Charity's objectives	80 29.09%	232 47.84%	14 15.73%
Type of charity (including general problem or need area(s) with which the charity is	255 92.73%	463 95.46%	86 96.63%
Charity's fundraising costs	43 15.64%	102 21.03%	7 7.87%
Categorises expenses into program-related, fundraising and administration activities	17 6.18%	63 12.99%	7 7.87%



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## RESULTS

- Mean reporting frequency of the mandated information types is consistently higher than the mean reporting frequency of unregulated information types.
- A large majority of charities do not voluntarily provide performance and service information deemed important by stakeholders in their annual reports.
  - Especially so for efficiency information, which prior research indicates is important in stakeholder decision making (e.g. ACNC, 2013b; van der Heijden, 2013; Trussel and Parsons, 2008; Bowman, 2006; Khumawala et al., 2005).
- Slight decrease in reporting of fundraising costs from 2013 to 2014 (18.52% to 15.83%), probably due to fewer charities submitting annual reports in 2014 and fundraising information is usually contained in the notes to the financial statements.



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## RESULTS

- Religious charities generally report the least service performance information, while charities in the health and social services industry segments provide more service performance information.
- Large charities generally report most service performance information (except for information relating to proportion of funds spent on the charity's work and programs and services), while small charities report the least service performance information.
- Charities generally report service performance information in a general purpose financial report, but not necessarily a Tier 1 (IFRS compliant) general purpose financial report.



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## CONCLUSION

- Regulatory reform has largely failed to bridge the gap between stakeholders' demands and reporting requirements because many performance and service information types remain unregulated.
  - Especially so for efficiency information.
- Charitable companies limited by guarantee do not voluntarily report unregulated information deemed important by stakeholders, but regulation induces charities to provide stakeholder relevant information.



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