

# GOOD CAUSES, GREAT LEADERS

THE CPA AUSTRALIA  
NATIONAL NOT-FOR-PROFIT  
CONFERENCE 2018





## Innovation, relevance, governance and passion

### **The CPA Australia National Not-for-profit Conference**

debated how charities and not-for-profits can innovate and grow in an environment where donors are under financial pressure and competition is increasing.

Speakers discussed how not-for-profit organisations bring passion and commitment to their causes and how these can be harnessed to change the world for the better.

Dr Gary Johns, commissioner of the Australian Charities and Not-for-profits Commission (ACNC), outlined his goals for the commission in his first speech since his appointment was announced late in 2017. He said the ACNC aims to provide better information to help donors make decisions about the charities and causes they support.

Grant Thornton partner Eric Passaris FCPA took financial officers through new accounting standards that will affect the sector, fielding questions on revenue recognition from those preparing for change. For more insights from the not-for-profit conference, go to <https://tinyurl.com/y7fbgfj4> Not-for-profit adviser and author Omer Soker and digital rights advocate Lyndsey Jackson discussed how charities stay relevant in a rapidly-changing world, echoing the theme of McCrindle Research's Eliane Miles, who said younger generations want to give differently and receive a more personalised experience.

Few in the sector underestimate the obstacles ahead, but the conference heard there are plenty of opportunities to embrace change and find smart ways to meet challenges.





# Better information to drive decision-making

The Australian Charities and Not-for-profits Commission (ACNC) is on a mission to provide better information that will enable donors to compare charities and drive change in the sector, ACNC commissioner Dr Gary Johns said in his first speech outlining the commission's direction in the next five years.

"If donors could search 'like' charities they will ask which one is best," he said, in a speech that was eagerly awaited following the announcement in December 2017 of his appointment.

Johns told the [CPA Australia National Not-for-profit Conference 2018](#) that better information would help drive mergers and acquisitions, a sign of dynamism that appeared to be lacking in the charity sector.

The ACNC and RMIT University Melbourne will survey charities on whether they have considered mergers.

Johns said the ACNC had five years of experience and data that he intended to provide to donors.

It was up to donors, the public, volunteers and taxpayers to decide what they wanted to do with the information but he believed donors could use the data to help drive the sector to greater efficiency and effectiveness.

## MAKING DATA EASIER TO FIND

Johns said he wanted to make data easier to discover and to lower the cost of finding it. People who did not donate might give to charities if they had more information on how the money was spent.

Not all donors will change their habits when presented with information but some will, and this would create a better market because donors wanted to know the proportion of their money that was spent on the cause and the outcomes achieved.

Johns acknowledged few donors wanted to pay for the information. "Our challenge is to lower the cost of accessing the right metrics," he said.

Existing information did not help donors compare charities with the same purpose or which ministered to the same people or causes.

"Some philanthropists and other donors want to find the best charity for the cause they support, which may require more information and more regulation," he said.

Johns said the ACNC will:

- Make data more readily available over time.
- Enable donors to find 'like' charities on the ACNC site.
- Provide data to enable donors to make valid comparisons, as most of the data on financial performance is not comparable.

The ACNC could ask and publish significant questions, such as whether the board has contracted fundraising and whether the terms are disclosed to members.

Johns said the ACNC had concentrated on collecting "the small numbers" and this work would continue, but the annual information statements submitted by 55,000 charities provided insights that should be shared with the broadest number of people in a way that assisted them to make decisions.

The ACNC's governing legislation, the Australian Charities and Not-for-profits Commission Act 2012 is under review and Johns said he was not looking for more powers. The commission would need a change in regulation to enable it to present information in other ways, however.

## CHARITY COMPLIANCE BREACHES

The ACNC revoked the charitable status of 26 organisations in 2017 and Johns said it cost a great deal to investigate compliance breaches.

"If I were to double the resources to compliance, the numbers would remain small," he said.

The ACNC may generate its own intelligence on the risks of the sector. It could then alert the class of charities that might be affected by issues, so charities could deal with problems before they arose.

"Some philanthropists and other donors want to find the best charity for the cause they support, which may require more information and more regulation,"









# Challenges for charities and not-for-profits – and how they are meeting them

## DONOR FATIGUE, SHRINKING INCOMES: HOW TO OVERCOME THE OBSTACLES

Generational change will affect the charity sector, and organisations need to find ways to connect with younger people, said Eliane Miles, social researcher with McCrindle Research, at the [CPA Australia National Not-for-profit Conference 2018](#).

“The challenge around giving is real,” said Miles.

Household disposable income has flatlined since 2009, and household debt has never been greater, she said.

Australian Charities and Not-for-Profits commissioner Dr Gary Johns told the conference that too many donors were growing tired of being hassled by charities working for smaller causes.

High migration had not translated into more giving and there was enormous churn and change in some communities as people moved house or changed job or career, said Miles.

Charities needed to learn how to connect and engage with different cultural communities, including the one in five migrants arriving in the last six years.

## GENERATIONAL CHANGE AFFECTING CHARITIES

Baby boomers, the generation aged between 53 and 71, hold one-quarter of workforce positions now but in the next decade two-thirds of jobs will be held by Generation X (aged 38 to 52) and Generation Y, aged 23 to 37 years.

Miles said that the younger generation has less to give than baby boomers, but also holds a different attitude to what is available and necessary.

Social enterprise was a recurring topic at the conference and Miles said younger generations saw social enterprise as nearly the same as charities and some might prefer to give in that manner.

They were also more influenced by the question of “what will I get?”.

## CHARITIES NEED TO PROVIDE A PERSONALISED EXPERIENCE

Younger generations were more willing to exchange personal information for a more personalised experience.

“How do charities keep up?

More transparency, participation and personalised experience.”

## GROWTH IN NAB CHARITABLE GIVING INDEX

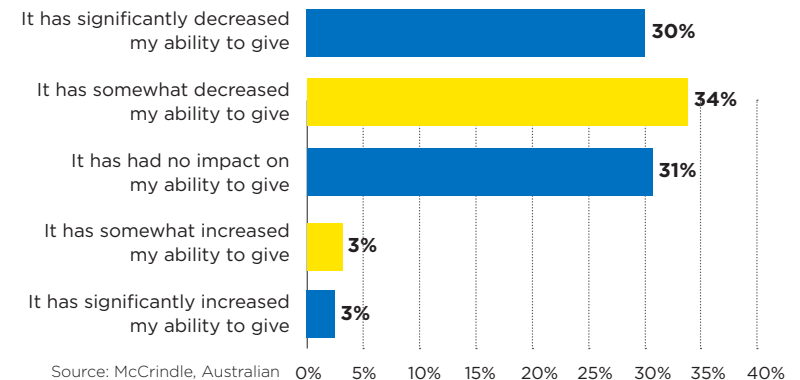
(percentage change, rolling 12-month year-on-year)



Source: NAB

## COST OF LIVING IMPACT

Has the cost of living and changing house prices in Australia over the last year or so impacted your ability or willingness to give to charities?



Source: McCrindle, Australian Communities Trends Report



### THREE RELATIVELY EASY TIPS FOR CHARITIES

Miles identified “low-hanging fruit” for charities:

- Look to create an experience where people can feel involved. Four in five millennials (those aged up to 36) said they would rather experience something than buy something. Miles gave the example of **Movember**, which has raised A\$850 million for men’s health since 2003 by encouraging men to grow a moustache during November and gain donations and sponsorship.
- Leverage peer-to-peer platforms. This means using brand influencers, people who might have followings of thousands of individuals. “This is less about mass messaging than the impact of an individual on their followers,” said Miles.
- Show real-time impact. Consumers expect the same level of immediacy as when they make a transaction online. A good example in the sector is the Kiva non-profit group, which provides loans aimed at alleviating poverty. The site shows donors where their money goes when the loan is placed.



Look to create an experience where people can feel involved.”







## HOW CHARITIES AND NOT-FOR-PROFITS ARE INNOVATING

Oxfam Australia chief financial officer Anthony Alexander CPA urged groups to gather ideas from around their organisation, recalling Oxfam Australia had successfully adopted a project first tried with British Gurkha soldiers in Hong Kong. He said Oxfam also used “skunkworks”, where informal teams met offsite to generate radical ideas.

Dan Langelaan FCPA, executive manager corporate services of FMC Mediation and Counselling, said it was important to build relationships with government and to be prepared to fail and take some risks. “Sometimes government will allow you to use a portion of funding for new ideas,” he said.

St Vincent de Paul Society Queensland has an innovation hub that enables any staff member with a new idea to attend a fortnightly meeting, explained chief financial officer Deborah Nisbet FCPA.

St Vincent de Paul tapped its 10,000 volunteers and used “virtual conferences” to support people who could not get to meetings.

With householders selling used goods via websites rather than donating them, Nisbet also said relationship building was important. As an example, she said St Vincent de Paul developed connections with resort owners who donated furniture when they were refurbishing their properties. Charities could tap into businesses’ willingness to be shown as good corporate citizens.

Speakers agreed it was important for organisations to identify and play to their strengths, to make sure new proposals aligned with their mission, that there was a demand for the project, and to ensure they did not overcommit themselves.

## PARTNERING FOR A PURPOSE: CREATING MORE EFFECTIVE CORPORATE AND NOT-FOR-PROFIT PARTNERSHIPS

Corporate partners want to reach new audiences, enhance brand awareness and associations and also to communicate in a more engaging and powerful way, said Felicity Green, associate director of Spark Strategy.

Green said not-for-profits shared many of these objectives. They too could reach new audiences, gain access to skilled volunteers and new board members, as well as obtain funding.

### She identified key characteristics of successful partnerships:

- **Clear intent:** Why are you doing this and what do you hope to achieve?
- **Values alignment:** Does it make sense for this corporation to invest in my not-for-profit?
- **Strategic alignment:** Does this partnership help us both achieve our strategies?
- **Appropriate reporting, communications and reviews:** Are there consistent measures and communications to manage the partnership and ensure a benefit is being realised? Are we managing the relationship together?

“How do charities keep up? More transparency, participation and personalised experience.





# How to stay relevant in times of rapid change

Organisations must innovate to stay relevant, said Omer Soker, CEO of The Future Associations and author of the book on association management, *The future of associations*.

At the [CPA Australia National Not-for-profit Conference 2018](#), Soker outlined how he interviewed 100 not-for-profit executives to develop a six-stage road map for organisations to stay relevant. His key points were:

- 1. Disruption** – Not-for-profits need to identify threats and the challenges holding them back.
- 2. Mission** – Expectations are rising and markets are changing, so organisations must be very clear on their mission and goals so they stay ahead of where markets are going. A mission statement must be very clear to guide decision-making and reflect clarity, measurable benchmarks and accountability.
- 3. Governance** – The innovation agenda has to start with the board. If the board lacks capability there needs to be governance reform. “You cannot be a modern not-for-profit without a contemporary board,” said Soker. He says governance will become more important as stakeholders and the public keep organisations accountable.

- 4. External** – Organisations need a businesslike approach to income, impact and stakeholder engagement, to deliver on their mission. Shareholders want to know their not-for-profit is honest and true and the best way not-for-profits can engage is through authenticity, service and value delivery, by seeing outcomes and results.

- 5. Internal** – Ensure everything is aligned internally to support the mission and external strategy.

- 6. Future focus** – The future depends on decisions made today. Soker urged not-for-profits to embrace innovation, saying it is the only insurance against irrelevance and will keep organisations moving forward.

“

You cannot be a modern not-for-profit without a contemporary board.”





**New  
accounting  
standards for  
charities and  
not-for-profits:  
they're coming  
soon**



Not-for-profit finance teams and their auditors need to be preparing now for new reporting standards coming into effect in 2019, Eric Passaris FCPA, audit and assurance partner and NFP specialist at Grant Thornton, told the [CPA Australia National Not-for-profit Conference 2018](#).

### New accounting standards AASB 15 and AASB 1058

Some of the changes – particularly in revenue and income recognition – go a long way to address concerns in the sector and will provide a better matching of revenue and expenses, Passaris said.

AASB 15 Revenue from Contracts with Customers will replace AASB 118 Revenue, and AASB 1058 Income of Not-for-Profit Entities will replace most of AASB 1004 Contributions.

In terms of revenue and income recognition it will be important for finance officers to understand what constitutes enforceable agreements and sufficiently specific performance obligations in a contract, he said.

The current model is based on the concept of reciprocity. A reciprocal transaction is one where goods or services are provided in return for revenue, and under the current AASB 118, the revenue is recognised when the goods or services are provided.

The concept of reciprocity has caused confusion in the sector, said Passaris. For example, when an organisation receives government funding to provide services to beneficiaries, a strict interpretation would say this is not reciprocal, as the funder doesn't receive goods or services, it's the beneficiaries who receive this. This would mean reporting income when it is received or controlled, which causes a mismatch between when income is

received and when the not-for-profit actually provides the goods or services.

AASB 15 seeks to address the mismatch, replacing reciprocity with a concept of enforceable agreements and performance obligations that are sufficiently specific.

### Enforceable agreements and sufficiently specific performance obligations

The starting point will be to establish whether the applicable standard is either AASB 15 or AASB 1058.

AASB 15 will apply where there is an enforceable agreement and the performance obligations are sufficiently specific.

Revenue is recognised when the performance obligation is satisfied, over time or at a point in time, regardless of whether the ultimate beneficiary is the grantor or third party.

If AASB 15 does not apply, a not-for-profit will revert to AASB 1058 and recognise income when control of the asset is obtained, for example

when funding is received.

Passaris said the new standards should reduce confusion about when to recognise revenue, which has led to the rules being applied inconsistently across the sector.

Most accounting standards are neutral between business sectors, but in recognition of specific application requirements for not-for-profits, the [Australian Accounting Standards Board](#) has issued specific guidance and examples.

### How to determine an enforceable right

Passaris said this will be an agreement that can be enforced by a counterparty, such as a government organisation, funder or donor. There might be a legal right but there need not be a formal contract for the conditions in AASB 15 to apply.

There will be consequences for non-performance, such as having to return unspent funds.

### How to determine a performance obligation

This will require judgment. A contract would state

the nature of goods or services, perhaps their cost, quantity and the period over which they will be delivered.

For example, a contract that states that an organisation will receive funding to provide homeless services would not be specific enough for AASB 15 to apply and would fall under AASB 1058.

"You have missed the opportunity to match revenue and expenses under AASB 15," said Passaris.

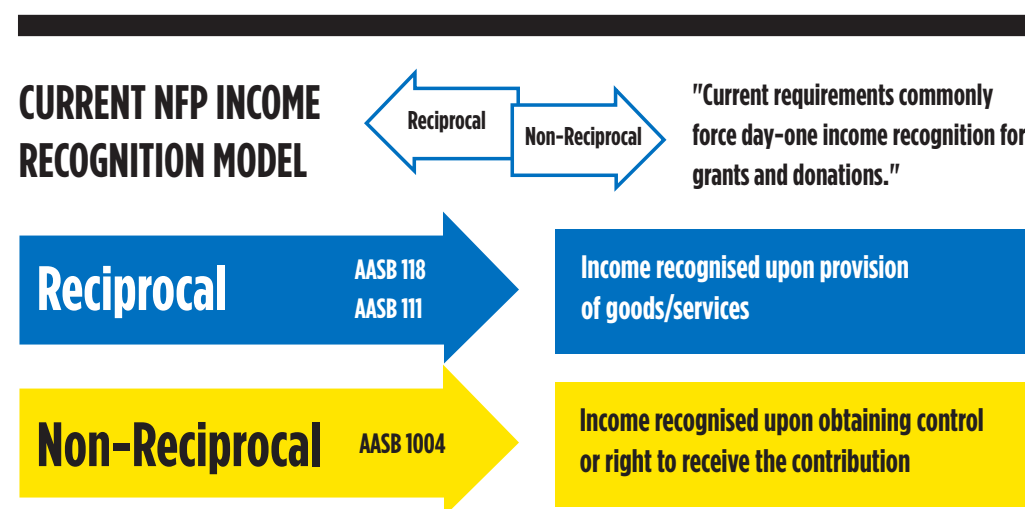
### Fair value measurement of non-financial assets

The existing AASB 1004 requires a not-for-profit that receives an asset for nil or nominal consideration to bring the asset onto its books at fair value. AASB 1058 broadens the requirement to all assets acquired at significantly less than fair value. These assets have to be recorded at fair value on initial recognition. There is no requirement to continually revalue, nor to get an expert to provide fair value. Inventory would be recorded at current replacement cost.

### AASB 16 and peppercorn leases

Under the new AASB 16 Leases, a leased asset will have to be measured at its fair value at inception, measuring the lease liability at its present value of the minimum lease payments. The difference will be recorded as income so there could be a bit of a hit to income and a distortion of profit and loss, said Passaris.

To mitigate the impact on profit and loss, it will be worth looking at whether there are any performance obligations that are sufficiently specific, in which case AASB 15 could apply, deferring the income to the balance sheet and then recognising over time as the obligations were met, reducing the impact on the profit and loss.



Source: 2018 Grant Thornton, Australia Ltd. All rights reserved





# Digital initiatives in the not-for-profit and charity sector

The not-for-profit sector has to get involved in digital initiatives, said Lyndsey Jackson, chair of Electronic Frontiers Australia, a digital rights advocacy group, at the [CPA Australia National Not-for-profit Conference 2018](#).

This will enable organisations to share information and build networks, but will also ensure that diverse voices are heard, she said.

“Technology is built by creating an ecosystem of knowledge-sharing and expertise.”

## DIVERSITY MATTERS

Jackson said diversity and collaboration were important to ensure wide access to technology, and that it served a diverse population.

She urged not-for-profits working with developers to ask who was on the team and whether there was a range of people.

“Accessibility needs to matter and it won’t be at the forefront of developers’ minds unless you ask for it.”

She urged organisations to be careful about the burden they shouldered with IT.

If they built an app they had to maintain it. If a developer proposed a custom-built solution “then ask why and assess whether you really need it”. Jackson said once the code

was written, the organisation became a code maintainer.

## MAINTAIN DATA SECURITY

Jackson said some organisations were at risk from cyber and data breach laws and needed to instil a work culture where security was important.

This included promptly removing departed employees from IT systems, because information could be hacked if an employee had used the same password across multiple platforms.

## DATA IS THE NEW OIL

Data was increasingly valuable and many organisations had collected years of information without knowing how they would use it, said Jackson. Now that data was being shared more, there were questions about whether people had given consent, and she said this was a global issue.

A data breach could occur, for example, by an employee accessing information without a legitimate reason or if a laptop was stolen from a car. Jackson said if a breach did occur, the best solution was to report it, because “not doing so will give a worse signal”.



Click to see more [insights from CPA Australia's  
Not-For-Profit Conference speakers.](#)

**INTHEBLACK**  
LEADERSHIP · STRATEGY · BUSINESS