

SUBMISSION TO THE ACNC

Not-for-Profit Governance Arrangements

The Australian Scholarships Foundation supports the general thrust of the regulatory proposals of the ACNC. In this submission, we wish to comment on only two aspects of the proposed financial reporting requirements:

1. Accounting for Grants.

The Australian Accounting Standards stipulate the records to be kept and reporting requirements for entities in receipt of government grants. The Standards are silent on the requirements for recording and reporting grants from non-government agencies. It is our submission that all grants should be subject to the same requirements. For example, in 2011, the Australian Scholarships Foundation (ASF) received a grant of \$200,000 from the Origin Foundation in order to fund the award of five Fulbright Non-Profit Leadership Scholarships, commencing in 2013. Clearly, the funds received in 2011 cannot be considered income of that year. In ASF's accounts, the funds were credited to a Reserve. Our submission is that this treatment complies with the requirements for accounting for government grants. Accordingly, all such funds should be credited to a reserve when received and only credited to Income when the associated expenditure is incurred.

2. Accounting for Services Rendered.

Many, perhaps most, charities incur costs in order to provide goods and services for which they make no charge. Even where charities do impose a charge, it is usually heavily discounted and does not reflect the full market value of the service. For example, OzHarvest receives donations of food which it delivers free to the homeless and needy. Meals on Wheels also delivers meals to the elderly and infirm, for which it (generally) makes a modest charge which does not reflect a market value of those meals. Recording and reporting the costs but not the full value of those food services seriously distorts the financial reports of those organizations. It also makes it impossible to measure the value of services rendered by charities within the Australian economy.

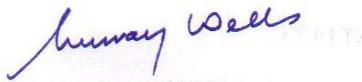
We appreciate that measuring, or even estimating, the value of all goods and services rendered by charities in Australia would be a forbidding challenge. For many small charities it would also be a pointless exercise. Nevertheless, we submit that those charities that can measure, or obtain reliable estimates of, the dollar value of the goods and services they provide should be encouraged to do so.

There is no provision for accounting entries of this kind within Standard Business Reporting, and auditors may be reluctant to endorse any attempt by charities to introduce such a measure. Standard accounting practices are all transaction based. This means that where no “transaction” occurs, as in the provision of a charitable service, there is no entry in the financial records. This may be illustrated by the Australian Scholarships Foundation (ASF), but the problem is universal.

ASF does not use its own funds for scholarships. All scholarships offered by ASF are either free or heavily discounted places in courses provided by education providers and funded by third parties (such as the Origin Foundation and the Perpetual Foundation). There is, accordingly no record of the free places within ASF’s financial records and only a partial record of the discounted places. There is, however, a readily available market value of each course for which a scholarship is offered in terms of the normal fee for that course. ASF believes that its financial performance would be better represented in its financial reports if the full value of each scholarship was disclosed in its income statement, with the source of funding (whether received by ASF or not) shown as a corresponding credit (in effect, a donation).

Without disclosure of the value of goods and services rendered in a given period, the financial statements are of little use in assessing the effectiveness of ASF – yet that is one of the purposes of those statements. Similarly, with no knowledge of the value of goods and services rendered, financial analysts, donors and beneficiaries have no basis on which to assess the efficiency of ASF’s operations. In this setting, ratio analysis is pointless and the assessment of fund-raising costs may be quite misleading.

ASF submits that a high priority should be given by the ACNC to the measurement or estimation of the value of goods and services rendered by charities, and the inclusion of those amounts in financial statements.



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