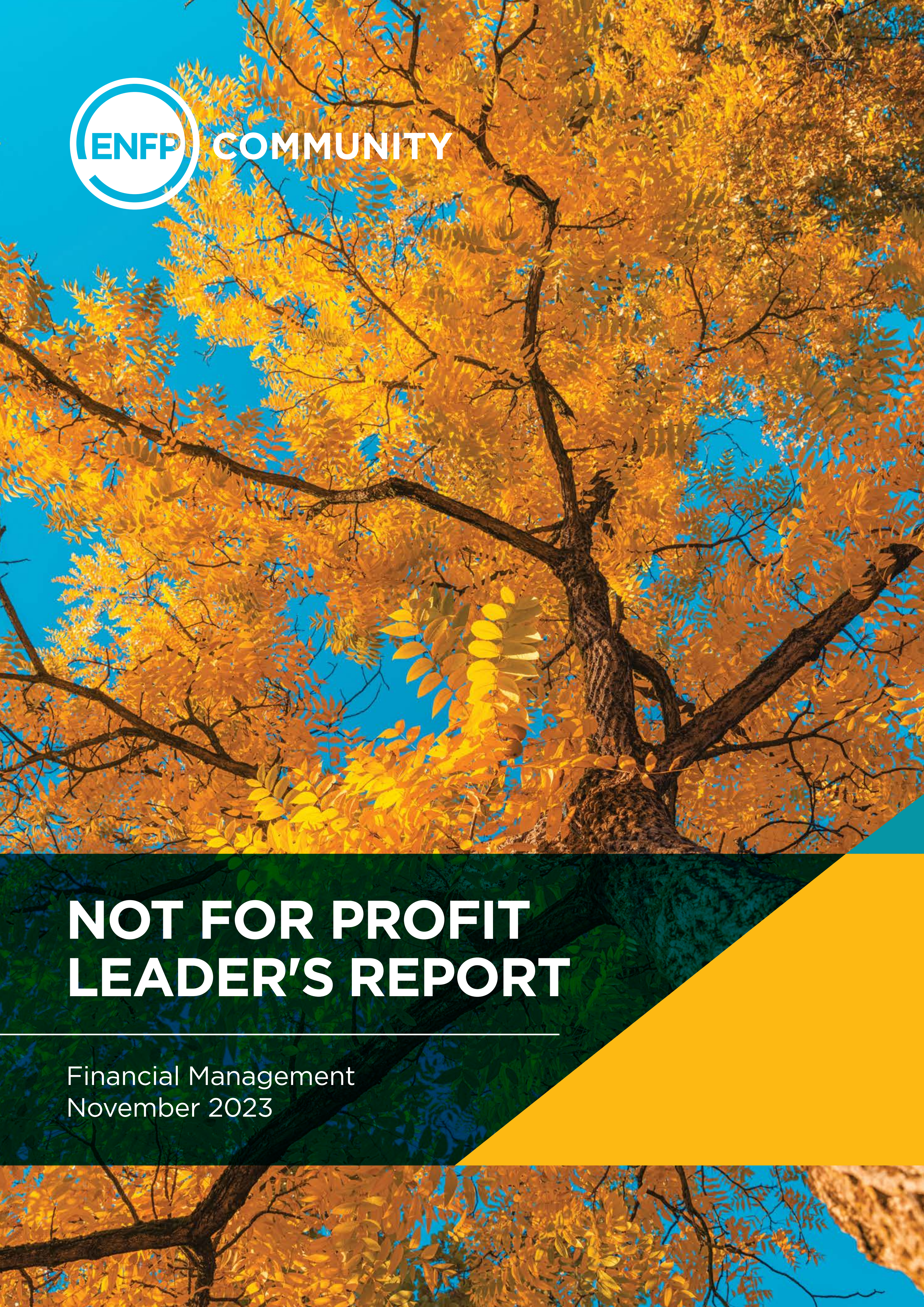
ENFP COMMUNITY



NOT FOR PROFIT LEADER'S REPORT

Financial Management
November 2023

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Financial management is at the heart of any business

INTRODUCTION

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Foreword

Welcome to our 2023 Not for Profit Leaders Report on Financial Management.

Not for profit organisations are greatly affected by wider economic factors both macro and micro. Micro factors can include changes in funding sources and donor behaviour, whereas macroeconomic factors include economic downturn, an increase in demand for services, inflation and changes in government policies.

We only need to look at the last few years of the pandemic, floods, bushfires, inflation and higher interest rates to see how many different influences there have been on not for profit organisations and their finances.

The challenges not for profit organisations have faced over the last few years looks to continue heading into 2024 and beyond.

Tailored to board members and leaders, this report will help you to navigate the dynamic landscape of managing finances in the not for profit sector. We delve into some of the unique financial intricacies that shape decision-making within not for profit organisations.

The survey

2023 marks our third annual Not for Profit (NFP) Leaders Survey on Financial Management. During October and November 2023, we surveyed more than 81 NFP leaders on financial management, the results of which are presented in this report.

The survey respondents breakdown was:

- **58%** **Traditional charity**
- **16%** **Association/membership organisation/club**
- **6%** **Social enterprise**
- **20%** **Other** (*including foundations and companies limited by guarantee*).

INTRODUCTION (CONT.)

85% of respondents report to the Australian Charities and Not-for-profits Commission (ACNC) and 11% to Australian Securities and Investments Commission (ASIC). Of those that report to the ACNC only 10% said their classifications had changed following the increase in ACNC thresholds.

The main findings of the survey include:

- The current economic environment was affecting **55%** of organisations' planned cash reserve levels
- **31%** looking to outsource some of their finance function
- **18%** were looking to grow the headcount of their finance team in the next 12 months
- **64%** had seen an increase in revenue over the last two years
- More than **55%** were looking to raise the prices for their products/services in the next two years
- In the last 12 months **83%** of respondents had seen an increase in wages - with the average increase being 6%
- More than **64%** were not concerned about the historical application or interpretation of payroll awards.

In presenting the results of this survey, we would also like to note responses are influenced by the perspective of the respondent being from a small or large organisation.

We would like to thank all those who participated in this survey.

"Implementing the right **technology** can vastly improve an organisation's overall efficiency and performance."

"The **management of risk** is a major aspect in establishing and continuing the brand and credibility of a not for profit."

MANAGING FINANCES

Not for profit organisations have a unique remit, in that their organisations exist for the greater good of the community — therefore, how they are funded, and how these funds are allocated, vary based on the strategic goal of the organisation.

How is your organisation funded?

The Australian Institute of Company Directors (AICD) Not for Profit Performance & Governance Study 2022 – 2023 reported that profitability fell in the sector with social services and health and residential aged care providers most affected. Despite this negative finding, the outlook was generally positive with almost three quarters of those who participated expecting a stronger financial position over the next three years.

The average reported percentage of NFPs funding by funding source in the AICD study showed that government funding and general commercial activities were once again (as per the previous year) the top two sources of income for organisations (19% and 18% respectively). Government fee for service (15%), donations (14%), member fees (13%), government funded for outcomes (11%) and sponsorships (4%) made up the other key reported revenue categories.

The AICD study showed that diversifying income sources remained one of the top three organisational priorities reported, with organisations realising that funding gaps require a need to supplement via other means.

In our 2023 survey, we asked the question of how organisations were funded. The following table shows the percentage of funding organisations receive from the various sources. Respondents were asked to select from one of the percentage boxes for each revenue source.

	0%	1 - 20%	21 - 40%	41 - 60%	61 - 80%	81 - 100%
Revenue from Government *(incl grants)*	14%	25%	12%	13%	14%	22%
Donations & bequests	14%	51%	14%	4%	15%	2%
Revenue from goods and services *(incl membership fees, corporate sponsorship & subscription fees)*	19%	31%	15%	9%	14%	12%
Revenue from investments *(incl interest, dividends)*	15%	73%	5%	0%	4%	3%

When we compare these percentage figures to the data obtained in our 2022 survey, we can see a shift in those relying on 81-100% government funding move from 27% to 22% - a significant decrease. Donations & bequests as well as revenue from goods and services in the 81-100% category both show substantial declines from 11% to 2% and 20% to 12% respectively. Those surveyed obtaining 81-100% of their revenue from investments, has shown a small increase (up to 3%), up from 0% in 2022.

Not for profits need to diversify their income streams and take steps to reduce their overall reliance on external funding. They need to think about the commercial and social value of their products and services in a global as well as local context. If charities want to attract significant philanthropic support, they should be helping wealthy Australians to structure their philanthropy and showing them the benefits they can get from giving.

MANAGING FINANCES (CONT.)

"Being able to **adapt to rapid change** is critical for organisations."

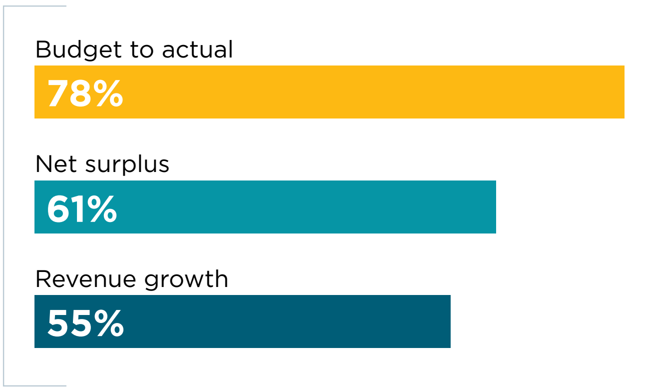
With an ageing population and a continued reliance on the NFP sector to deliver services following years of natural disasters and a pandemic, organisations must explore new ways to generate income and capital to solve social issues.

With government funding under pressure, many organisations will find themselves in a challenging financial position going forward. Many should be examining their business models closely and assessing the strength of their organisation's balance sheet and ensuring there are no 'lazy assets'.

As highlighted in our 2023 NFP Leaders Report on Strategic Planning – being able to adapt to rapid change is critical for organisations.

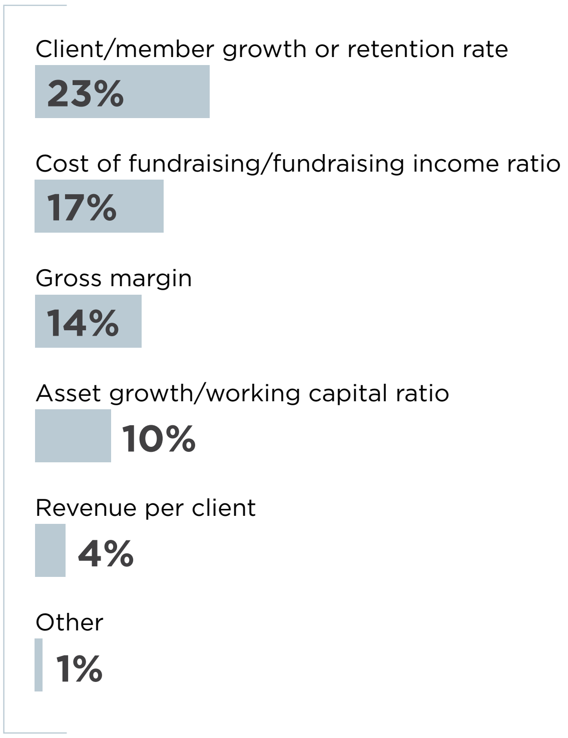
When asked how you measured financial performance the top three standout results were (note - participants were able to select multiple options):

How do you measure financial performance? *(please select your top 3)*



It is not surprising that these again reflected similar results to those obtained in both the prior two years' surveys.

The remaining selections results are as follows:

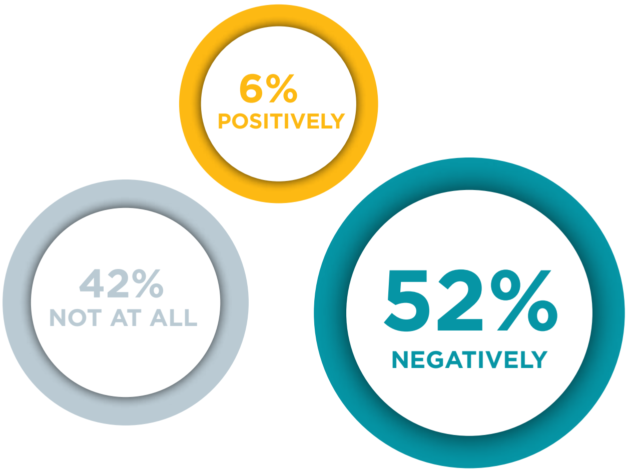


MANAGING FINANCES (CONT.)

THE IMPACT OF EXTERNAL ECONOMIC FACTORS

In considering some of the key impacts the sector has weathered over the last 24 months including bush fires, floods, cost of living pressures and the current economic environment, we asked if the organisation's financial performance had been impacted positively, negatively or not at all - 58% said that it had been affected in some way either positively or negatively.

Has your financial performance been affected?



When respondents that had answered that they had been affected were asked "in what ways", the overwhelming majority commented that costs had increased, and had done so faster than revenue. Work pricing issues, lower donations/sponsorship/fundraising/bequests, static government revenues and volatility of returns on investments were detailed as the main income related challenges.

When asked if revenue had grown over the last two years, 64% of respondents said that it had. Interestingly, this remains very similar to the 62% reported in 2022's survey, which is surprising given we had expected to possibly see a change in pattern post pandemic with decreases in government support, initiatives and funding.

Has your revenue grown in the last two years?

64% YES

36% NO

We asked if you were budgeting a surplus over the next 12 months and even in the current economic environment 45% were budgeting a surplus, a slight decrease to the 48% reported in 2022.

Are you budgeting a surplus over the next 12 months?

45% YES

55% NO

MANAGING FINANCES (CONT.)

RAISING YOUR PRICES?

A large part of financial management is the analysis of your current income levels.

We asked if you'd raised the prices for your products/services in the last two years where 55% of respondents said no. Whilst this figure was a decrease from the prior year's figure of 62%, it is still interestingly in the majority.

We then asked what relationship these increases had to CPI and 90% said that the increases were either by CPI or greater than CPI.

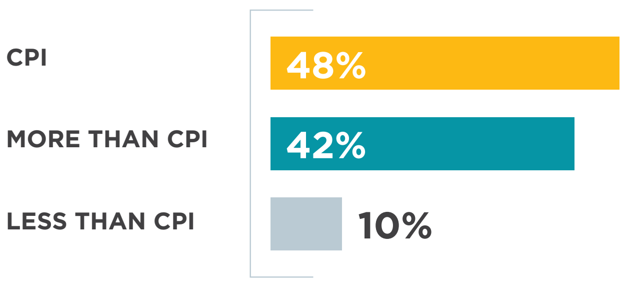
Once again, when asked whether you were looking at reviewing prices over the next 12 months, 54% said yes, almost the same result as the 2022 survey (53%).

Have you raised your prices for products/services in the last two years?

45% YES

55% NO

Have they increased by...?



Are you looking to raise your prices for products/services in the next two years?

54% YES

46% NO

Raising prices may seem a scary concept for those in the not for profit sector but this need to raise prices can occur for a number of reasons including: increasing revenue, change in market conditions, supply chain costs, broader inflation, reposition the organisation or matching changing norms in the sector.

With the economy currently feeling pressure on a number of these, the biggest question to answer is what can the market bear?

Before looking at raising prices you need to consider the strength of your organisation's position. Are you confident that your customers/clients are satisfied with your current offering? Are you receiving positive feedback? It isn't an exact science, but it would be brave to raise prices if you aren't being received positively by your current clients/customers.

It's important to look at other NFPs - who are you competing against? Charities that rely on fundraising and donations can suffer during economic downturn due to a decrease in consumers discretionary spend. Are you adding value to your clients/customers? What are other NFPs doing?

One of the age-old questions is how to increase prices without deterring customers and damaging 'sales' – especially in a tight economy. Customers will baulk at a price increase for no apparent reason. You need to ensure you have a data-led strategy that is well communicated to your clients or customers that looks to maintain long-term value.

This data-led strategy would influence financial forecasting and indeed financial modelling. The forecast considers trends in external and internal historical data and projects those trends in order to provide decision-makers with information.

Whereas, financial modelling uses tools to simulate the effect of decisions using different scenarios and conditions. In effect, financial modelling helps leaders fully understand the impact of decisions on future business performance.

Raising prices is not just an accounting decision though. Price increases will have a knock-on effect across your whole organisation. This could range from marketing strategy and promotional material needed for your team down to customer service. You need to consider and plan for all the areas that will be affected – including employees. The right communication strategy implemented well before any price increase occurs will help alleviate any angst and pushback.

MANAGING FINANCES (CONT.)

PRODUCT/SERVICE DIVERSIFICATION

The findings of our NFP Leaders Survey on Strategic Planning undertaken in May 2023 showed 64% of respondents were looking to provide new services to existing services and 49% were looking to expand into new geographies.

We asked if you were looking to diversify your products and services in the next two years. 59% of respondents said they were, identical results to those reported in 2022.

Are you looking to diversify your products/services in the next two years?

In addition to achieving higher revenue, there are several reasons for an organisation to diversify, including:

- Risk mitigation in the event of an industry downturn
- More variety and options for products and services
- Protection from competing companies.

Entering an 'unknown market' can result in increased risk for an organisation. Therefore, you should only pursue a diversification strategy when the market demonstrates slow or stagnant future opportunities for growth.

DIVERSIFICATION IS ONE OF THE FOUR MAIN GROWTH STRATEGIES illustrated by Igor Ansoff's Product/Market Matrix:

MANAGING FINANCES (CONT.)

JOINT VENTURE, PLANNED MERGER OR PLANNED ACQUISITION

The AICDs Not for Profit Performance & Governance Study 2022 – 2023 reported that mergers remain on hold across the sector. Despite many of the challenges faced by NFP organisations, merger activity remains low, as do discussions about merging. Many commentators had expected to see the pace of merger activity post-pandemic to increase, however this appears not to have occurred.

When asked whether you were looking to enter a new joint venture, planned merger or planned acquisition in the next two years, 25% of respondents said yes. This result is identical to that in the 2022 survey response.

Are you looking to enter into a new joint venture in the next two years?

25% YES

75% NO

So, what is the difference between a joint venture and a partnership, and which one is right for your organisation?

The term 'partnership' is often used loosely in the NFP sector; however, it does have a technical legal meaning. In a partnership the two or more organisations have joint interests in a specific project and are jointly and separately liable for the expenses of the project. In a joint venture, the organisations usually have defined interests and are usually liable for their own debts, which they incur individually.

Typically in a joint venture arrangement, the organisations remain separate legal entities and combine their resources for a particular (often temporary) project.

The three main things that set joint ventures and partnerships apart are regulations, liability and tax.

A NFP may use a joint venture agreement to work with another organisation/s for the purposes of fundraising, service delivery or advocacy.

Advantages of a joint venture agreement may include:

- expansion of the organisation's ability to provide products or services
- access to resources or staff
- a temporary commitment.

Disadvantages may include:

- the potential to lose your income tax-exempt status
- a risk of conflict
- not seeing eye to eye with the other organisation.

Before entering into either a partnership or a joint venture, it's important to consult an adviser to ensure it's the right choice for your organisation.

> "The three main things that set joint ventures and partnerships apart are: regulations, liability and tax."

MANAGING FINANCES (CONT.)

CASH RESERVES

When asked about cash reserves we again saw similar findings to our 2021 and 2022 surveys, with 69% of respondents having at least six months' worth of cash reserves.

ANSWER CHOICES	RESPONSES
1-3 months	15%
3-6 months	16%
6-12 months	23%
12 months+	46%

When we asked if the **current** economic environment was affecting **current** cash reserves, interestingly 45% of respondents said yes, a substantial decrease from the prior year's survey (59%).

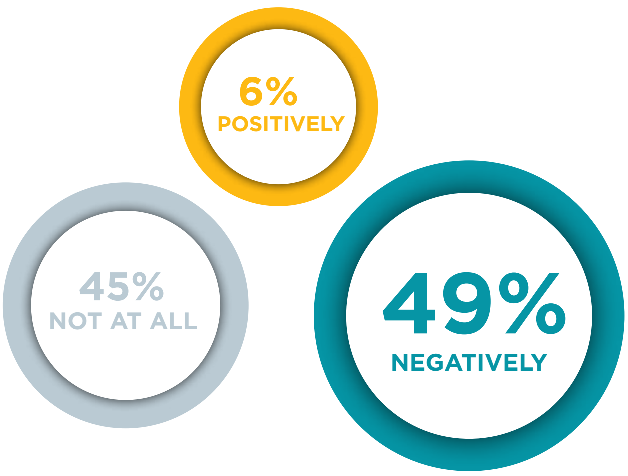
Is the current economic environment affecting your current cash reserves?

45% YES

55% NO

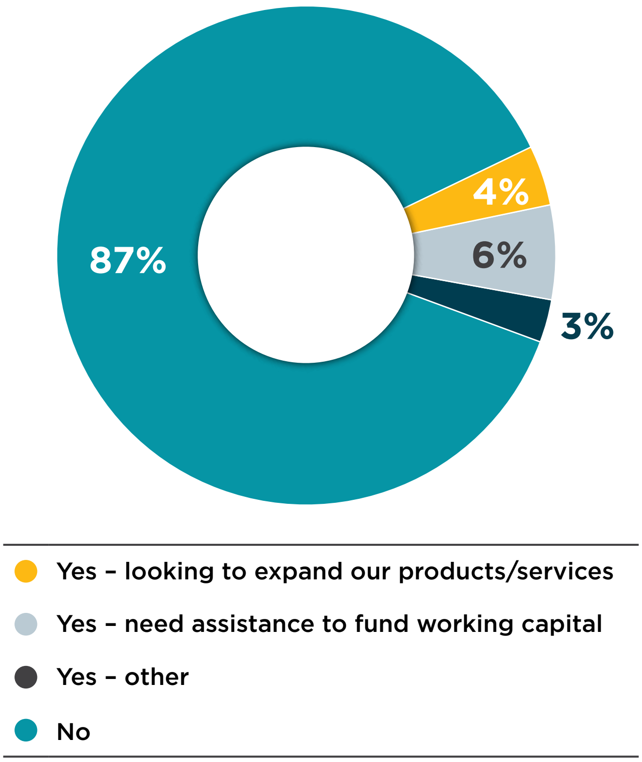
When we alternatively asked if the **current** economic environment was affecting **planned** cash reserve levels (positively/negatively), 55% of respondents said yes.

Has the current economic environment impacted your planned cash reserve levels?



We asked if your organisation was looking to take on more debt over the next 12 months, 87% said no - substantially higher than in 2022 (80%). When looking at those who reponded yes, 6% was to provide working capital (down from 11% in 2022), and 4% looking to expand products/services (also showing a decline from 2022's survey result 8%).

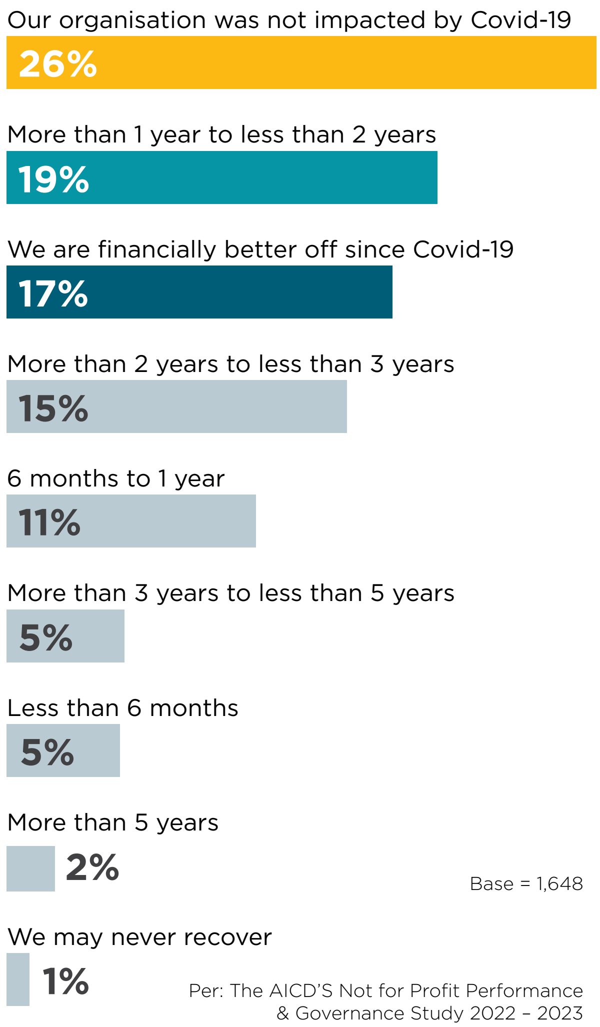
Are you looking to take on more debt in the next 12 months? *(select all that apply)*



MANAGING FINANCES (CONT.)

FINANCIAL RECOVERY POST PANDEMIC

The AICD study asked how organisations were recovering post-Covid, with the results shown here.



Base = 1,648

Per: The AICD'S Not for Profit Performance & Governance Study 2022 – 2023

Over a quarter (26%) if respondents reported their organisations were not financially impacted by Covid-19.

Given the current Covid-19 situation, half of respondents (50%) expected profits to return to pre-Covid levels from between six months to five years' time.

A very small proportion of organisations estimate they may not financially recover from Covid for more than five years.

Questions for consideration

- Do we have a strong enough business model to be sustainable?
- What level of profitability should we aim for?
- Is our reserves policy up to date or relevant?
- Do we need to reconsider our sources of funding?

BOARD REMUNERATION

Of those surveyed, 75% have boards of 6-10 directors, with over 40% reporting that their board operates with between 8-10 directors.

How many directors are on the Board/COM?

ANSWER CHOICES	RESPONSES
3-5	12%
6-7	34%
8-10	41%
11-13	7%
14+	6%

Our survey findings showed that the constitutions of 75% of organisations precluded the board from paying remuneration to their directors. Of course, there is no blanket rule that says an organisation must prohibit its directors from being paid. In various cases, it has been an historical matter, when the organisation was set up it was appropriate for members to include in the rules that directors could not be paid, although consideration must be made of any legislation the organisation must comply with, for example the NSW Charitable Fundraising Act and the ACNC Act. In addition, for some types of NFPs they needed to include such a prohibition within their rules to gain and retain their registration.

The profile of survey respondents shows that around 58% identify as being a traditional charity.

In the case of 79% of the boards, there is no remuneration paid to directors and about 12% where all directors are remunerated as board members.

Ultimately, if an organisation proposes to remunerate its board members, then it needs to check and confirm that the constitution allows for director payments in the first instance.

Does your constitution/rules currently allow directors to be remunerated?

25% YES

75% NO

Are any directors remunerated?

ANSWER CHOICES	RESPONSES
None	81%
Chair only	4%
Chair plus select directors	3%
All directors are remunerated	13%

For directors that are remunerated, what is the value of remuneration *(select multiple where directors are remunerated differently)*?

ANSWER CHOICES	RESPONSES
Less than $5k p.a.	79%
$5k-$10k p.a.	10%
$11k-$20k p.a.	7%
$21k-$35k p.a.	1%
$36k-$60k p.a.	7%
$61k + p.a.	3%

**Note - multiple selections were allowed, indicating different directors were paid differently*

BOARD REMUNERATION (CONT.)

The majority of the boards receiving payments (79%), are paid less than $5,000 p.a. The different approaches of organisations can be gleaned from 3% paying their directors greater than $61,000 p.a., while 7% pay their directors between $36,000 to $60,000 p.a., and 10% pay their directors between $5,000 to $10,000 p.a. Hence around 28% of Boards are paying their directors greater than $5,000 p.a.

Of those that pay their directors, only about 24% review those payments annually.

Does the above value get reviewed annually?

24% YES

76% NO

Finally, of those that are presently not remunerating their directors, 4% indicated that the Board is planning to review this in the next 12 months.

If not remunerated, is the board planning to review this in the next 12 months?

4% YES

96% NO

As part of the AICDs Not for Profit Performance & Governance Study 2022 - 2023 they surveyed participants on directors' remuneration. Their data showed that the percentage of directors remunerated increased to 22 per cent compared to 14 per cent five years ago.

By way of further comparison not for profit governance and remuneration specialists, Enterprise Care has recently released its FY24 NFP Remuneration Portal. Their data reveals that 28% of NFP or for purpose directors are now receiving remuneration.

As is the situation with the CEO and other senior executive positions, variations do occur across various classifications within the not for profit sector for director remuneration. While often an argument is presented that being paid is unlikely to be a consideration in a charity board appointment, this appears to be changing quickly.

It is not surprising the change is connected to those boards that are the stewards of quite complex organisations with increasingly more diverse and growing risks.

The above suggests a trend is establishing itself and that more and more boards are introducing remuneration for their directors.

Enterprise Care's data shows that Chairs of NFP boards are earning between $3,885 and $176,691 per annum and directors are earning from $2,220 to as much as $106,014 per annum.

Going forward, it would appear that NFP boards are, maybe reluctantly, feeling a need to commit to director remuneration as part of enhancing their succession planning and attracting a broader cross-section of potential quality directors.

The AICD study also addressed the director time commitment. Just over half of NFP directors spend between one and five days on director duties per month. While 43% of respondents consider they are dedicating the same amount as last year, 44% believe they are contributing more time this year.

> "If an organisation proposes to remunerate its board members, then it needs to check and confirm that the constitution allows for director payments."

RESOURCING

The old standard of working 9 to 5 has not returned, and there continues to be a focus on flexibility and ensuring a greater work life balance for employees. Working more efficiency is a priority for organisations with the current economic pressures as there is limited funding to pay for additional resources or overtime.

The way we work looks to have changed forever. Working from home is no longer considered a benefit. You only need to visit any of the central business districts across Australia during the week to see the change.

Have your finance team been working remotely during the last 12 months?

73% YES

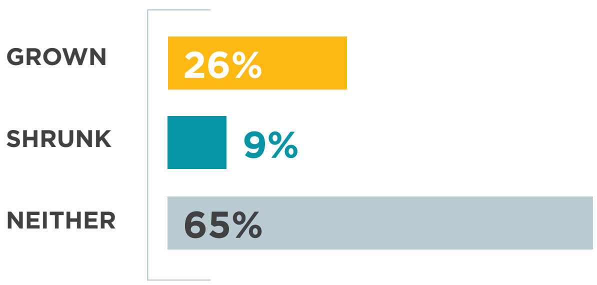
27% NO

We asked how many people were in your finance team with the majority, 67%, saying there were between 2-5 people. It's important to note that these may not be full-time employees. Smaller organisations are likely to have less people in their finance team with 20% of respondents saying they only have one person in their finance team.

How many people in your finance team?

1	2-5	6-9	10+
20%	66%	11%	3%

Has your finance team grown or shrunk in the last two years?



It was interesting to note that 26% of respondents said their finance team had grown in the last two years, and 18% of organisations are looking to grow their finance team headcount in the next 12 months.

Are you looking to grow your finance team headcount in the next 12 months?

18% YES

82% NO

Unfortunately, whilst it is easy to say, it is much harder to put into practice as those who have tried to recruit over the last two years would know. With the Australian unemployment rate sitting at 3.6% (at the end of September 2023), recruiting skilled employees remains a challenge.

As reported in our Financial Management report in 2021, there was a newly coined phrase 'the great resignation'. At that stage we weren't sure if it would have an impact on Australia. The findings from our surveys both in 2022 and 2023 show that this has impacted Australia. More than 56% of our 2023 survey respondents said that they'd had a change in their finance team personnel over the last 12 months.

Have you had a change in personnel in your finance team in the last 12 months?

56% YES

44% NO

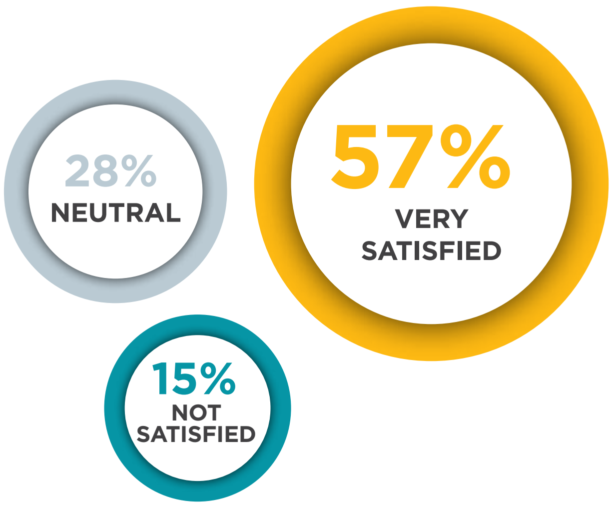
We asked if the change in personnel has affected the ability for the team to produce reports in a timely manner and just over 41% confirmed this was the case.

When asked how satisfied leaders were with the management reporting they received from their finance team, it was interesting to note the comparisons to our 2021 and 2022 reports.

RESOURCING (CONT.)

In 2023, 57% said they were very satisfied, on par with 2022 (56%) but remaining far lower than reported in 2021 where 72% said they were very satisfied.

How satisfied are you with the management reporting (timing, accuracy and information) produced by the finance team?



We asked if your finance team was adequately resourced with the appropriate segregation of duties, with 78% responding with yes. This was an increase from the 2022 result (69%) but still well below the 2021 survey (86%).

Is your finance team adequately resourced to enable appropriate segregation of duties?

When asked if you had reviewed your finance processes within the last 12 months, we saw identical responses to our 2022 survey.

Have you reviewed your finance processes within the last 12 months?

This year 80% said their team was in-house with 12% hybrid and 8% external. These results are almost identical to those in 2022 - 82%, 11% and 7% - respectively.

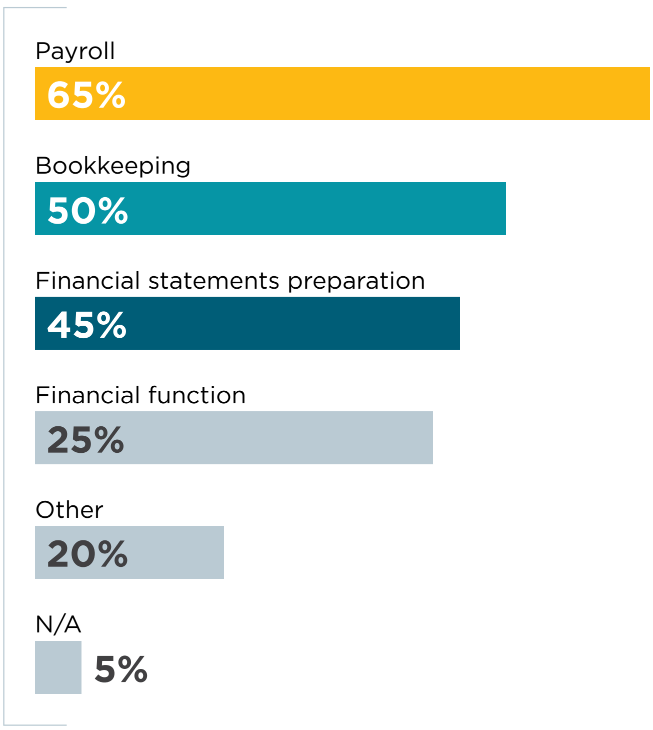
When asked if you'd considered outsourcing any part of your finance process, 31% said yes, compared to 37% in 2022.

Have you considered outsourcing any part of your finance process?

When looking at what area respondents were looking at outsourcing, payroll remained at the top of the list as it was in both 2021 and 2022 with 65% of respondents. We will further touch on payroll later in this report.

Bookkeeping and financial statement preparation are two other areas organisations are looking to outsource with 50% and 45% of respondents respectively looking at these.

Which part?



RESOURCING (CONT.)

As organisations look to manage costs and resources more effectively, outsourcing all or some of the finance function, has become more and more popular and as the economic future for many is still not clear, outsourcing the finance function is seen as a very good solution for many organisations.

The benefits to outsourcing include:

- reduced costs
- increased productivity
- timesaving
- skills and expertise
- resourcing when it's needed.

Some of the downsides to outsourcing can include:

- unexpected costs
- reduction in face-to-face time
- loss of control
- risk of choosing the wrong resource.

Recruitment and retention of key employees remains an area of concern across all industries and sectors and the not for profit sector is not immune to this.

When asked what the biggest risks with your finance team were, leaders again listed staff retention and key person /corporate knowledge loss as the top two risks along with succession planning and staff capability. The AICDs Not for Profit Performance & Governance Study 2022 – 2023 reported that workforce planning was one of the organisational priorities most frequently rated within the top three for the next 12 months.

Unfortunately, organisations will always have to deal with employees leaving due to a number of reasons. Prevention and preparation are key to these departures not affecting the organisation negatively. This could include:

- identifying appropriate stand-ins
- take out key-person risk insurance
- establishing mentoring, work shadowing and cross-training initiatives
- creating formalised standard operating procedures and checklists for all processes
- building an organisational framework where critical knowledge, relationships or IP is not retained by one or a handful of individuals
- embrace technology
- look at outsourcing.

Increasingly, organisations are leveraging technology to eliminate their key-person dependency through automated workflows and responsibilities, centralised information gathering and storage, and knowledge sharing.

Replacing an employee can be a costly exercise. It is estimated that replacing an employee can cost up to two or three times the outgoing workers salary – from advertising, screening applicants, interviewing, cost of onboarding and training, lost productivity and engagement.

High turnover in your finance team can lead to major problems: it can lower productivity, delay financial reporting and decision-making, and even trigger a snowball effect among the remaining team members. Plus, recruiting and training replacements can be costly and time-consuming.

Some turnover is natural in every department. But if turnover in your accounting department has become excessive, it may be time to consider these measures:

- Strengthen bond with employees – happy employees feel valued, challenged and connected to their employer
- Work closely with HR (or hire a consultant) - they can help create and implement a flexible scheduling program or administer an employee satisfaction survey. Or, if a specific employee is a flight risk, HR can help address the individual's concerns and re-engage them in the team.
- Uncover the root causes for departure/s – and address any common themes.

PAYROLL

Payroll plays a critical role in any organisation. It's often one of the biggest expenses for businesses, especially for not for profit organisations who tend to depend on human resources to provide services for customers and communities.

Proactive financial management can help plan for known payroll costs when considering wage increases, but navigating payroll compliance can trigger unexpected costs for businesses with regards to repayment of wages due to payroll errors, unexpected underpayment penalties, or even interest or superannuation costs relating to the underpayments.

In this payroll section of the survey, we asked respondents about their wage and compliance processes within their organisation.

WAGE INCREASES

Competitive wages play a crucial role in attracting and retaining talent. Not for profit organisations in particular grapple with the balance of ensuring fair compensation through wage increases while judiciously managing resources.

When asked if wages had increased in the last 12 months, 83% of respondents said yes. Although this is a resounding response, the proportion of respondents reporting wage increases had reduced by 3% since our 2022 report.

Have your wages increased in the last 12 months?

83% YES

17% NO

The average wage increases across all respondents came back at 5.7%, a slight decrease from last year's figure of 6%. Soaring inflation, tight labour markets and global economic uncertainty could be contributing factors to this decrease, as organisations balance attracting and retaining talent with keeping remuneration budgets under control.

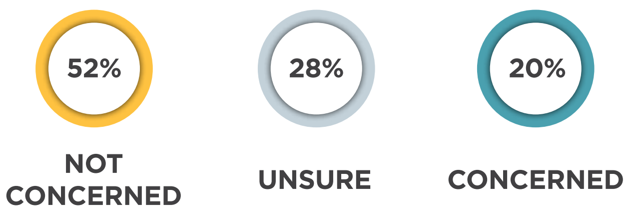
IMPENDING LEGISLATION

The 'Closing Loopholes' Bill, tabled in the House of Representatives on 4 September 2023, proposes reforms that will have a substantial impact on the way employers approach wage compliance.

Although the bill's objective is to promote a fairer balance between workers and employers, in practice, these changes impose intricate and unclear compliance obligations on employers, resulting in substantial time and financial costs.

We asked respondents how concerned they were about meeting payroll compliance obligations proposed by the Closing Loopholes Bill. 20% of respondents stated they were concerned, 52% were not concerned, and 28% were not sure how they felt.

How concerned are you about meeting payroll compliance obligations proposed by the Fair Work Amendment (Closing Loopholes) Bill 2023?



PAYROLL (CONT.)

Interestingly, of those who said they were concerned, 77% had conducted an audit of their payroll for awards, enterprise agreement (EA) or industrial instrument compliance. Of the respondents who said they weren't concerned, only 48% had carried out such an audit. This data suggests that absence of concern for impending legislation could be connected to a lack of awareness of compliance processes and issues, portrayed by the lower incidence of audits among the 'not concerned' subset.

With the introduction of The Closing Loopholes Bill, leaders should be aware of significantly increased civil penalties, now increasing five times to $93,900, and for serious contraventions $939,000. Non-compliance with compliance notices can incur penalties ten times higher. In cases involving underpayment, penalties can escalate to three times the underpaid amount where this amount is higher than the maximum. A noteworthy change is that serious contraventions no longer exclusively pertain to intentional acts; they encompass reckless behaviour as well.

Employers are at risk of being deemed reckless when their payroll team, legal department, or directors are aware that their payroll systems are insufficiently compensating employees in accordance with awards and enterprise agreements and failed to address the problem.

These reforms usher in a new era for employers, necessitating a proactive approach to compliance. It has become increasingly crucial for leaders to become more aware of ongoing compliance obligations and establish and maintain continuous compliance protocols to effectively adapt to these recent developments.

PAYROLL COMPLIANCE AUDITS

Payroll audits should be a regular part of any governance framework to ensure ongoing compliance with industrial instruments, mitigate potential risk in payroll processes, ensure adherence with evolving legislation and continuously improve processes and technology.

We asked survey respondents whether they had audited (either internally or via a third party) their payroll for awards, EA or industrial instrument compliance. 53% said that they have previously conducted an audit.

Have you had an independent audit of your compliance with awards for payroll?

53% YES	47% NO

Of the remaining 47% who said that they had not had their payroll systems audited, 57% said that the reason they had not done an audit is due to reliance on their payroll systems or team expertise for compliance. However, payroll compliance cannot focus on payroll inputs alone. With no safety net in place to audit the outcomes, inevitable errors from a one-way system may not be spotted and rectified.

With the complexity presented by legislation, awards and EAs, and unique and changing employee working scenarios, relying on a payroll system alone for compliance auditing is simply not enough. Human error, system glitches, or outdated data can all contribute to issues with payroll system outcomes.

76% of the employers who have never audited their payroll said they felt confident their systems were up to date, while 16% weren't sure. The resounding confidence in system compliance amidst a subset of respondents who had never conducted an audit suggests that compliance risk is likely not top of mind unless a problem has been identified.

PAYROLL (CONT.)

"Payroll audits should be a regular part of any governance framework to ensure ongoing compliance with industrial instruments"

In Yellow Canary's (payroll verification and compliance specialist) experience, they have found that when businesses wait until a problem arises, the risk of costly and unnecessary remediation projects will increase. Focusing only on remediation (and only when it is demanded) leaves businesses exposed to the risk of continuing non-compliance. While remediation seeks to correct past errors and concerns, it does not necessarily address current issues, nor assist with ongoing compliance. Leaders must shift their mindset of compliance from reactive to proactive.

68% of the employers who had completed a payroll compliance audit did so via a third-party professional services provider. The remaining 32% of audits were conducted by internal teams.

Interestingly, 45% of those employers who had their internal teams conducted an audit said they are concerned about historical compliance. In contrast, 22% of those who had a third-party provider conduct the audit showed concerns about historical compliance. As humans, we have our own habits and rituals that we can easily repeat and become biased to. Conducting a third-party wage audit either via technology or a service provider helps to segregate duties, achieve an unbiased and accurate review, and alleviate pressure from internal teams.

How was the audit carried out?

ANSWER CHOICES	RESPONSES
Via third party providers	68%
Via internal teams	32%
Via third party auditing technology platform	0%

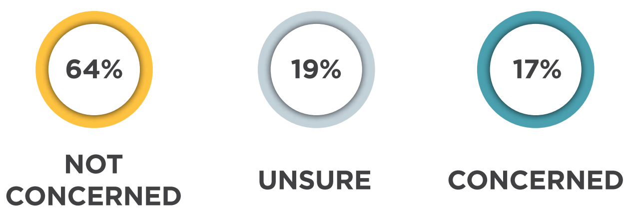
No respondents in the survey had utilised technology in their audit process. Next year, we hope to see a larger uptake of the use of automation tools in compliance audits, which can help to alleviate human error, alleviate repetitive and time-consuming tasks, reduce professional services costs, and help finance leaders to proactively manage compliance on an ongoing basis.

CONCERN AROUND UNDERPAYMENTS

The industrial relations landscape in Australia is undeniably complicated, marked by constant change and evolving legal decisions that influence the interpretation of modern awards and enterprise agreements. Many businesses have been caught out by this complex environment, regardless of whether they have the best intentions, the most experienced in-house capabilities, and the best systems.

When asked respondents about their level of concern regarding the historical application/ interpretation of awards and the risk of staff underpayment, 17% of them expressed they were concerned, while 19% remained unsure. Interestingly, among the 64% of respondents who indicated no concern, approximately 50% of them had not conducted an audit of their payroll.

How concerned are you about the historical application/interpretation of awards and the risk of underpayment of staff?



PAYROLL (CONT.)

SYSTEMS

Among those surveyed, a significant 77% expressed confidence in their systems and that they were complying with all employee entitlements and related legislation, including awards. However, 6% of respondents admitted to lacking confidence in their systems. Interestingly, within this 6%, a majority of 75% had never conducted an audit or reviewed their position descriptions with an advisor. Additionally, 17% of respondents remained uncertain about their level of confidence in their systems.

Are you confident your systems are up to date and you are complying with all employee entitlements and related legislation including awards?

77% YES

17% UNSURE

6% NO

In Yellow Canary's experience, relying on systems to ensure compliance hinges on three assumptions:

1. Your payroll system has been correctly configured to your specific situation with the correct inputs;
2. Your payroll system has the ability to handle the complexity presented by legislation, awards and enterprise agreements; and
3. Awards, enterprise agreements and regulations are static.

These assumptions are often proven incorrect, underscoring the fact that even employers with the most sophisticated systems have areas of non-compliance. Much like you cannot conduct a real-time audit of your financial statements, the same principle applies to payroll. It is crucial to stop at a point in time and retrospectively assess compliance to effectively navigate the ever-evolving Industrial Relations landscape.

CLASSIFICATION REVIEWS

58% of respondents have not had their position survey reviewed by a professional advisor, compared to 42% of respondents who have.

Have you had all position descriptions reviewed by a professional adviser to ensure employees are classified correctly?

42% YES

58% NO

In Yellow Canary's experience, employees not being classified correctly is a key driver of underpayments of wages and salaries. An employee's job title and their job duties regularly evolve, therefore if a classification review hasn't been conducted recently, there is a high chance that employees aren't classified correctly and therefore could be in a position where they are being underpaid.

PRIORITISING PAYROLL COMPLIANCE

The importance of prioritising payroll compliance for not for profit organisations in Australia is underscored by the need to maintain public trust and uphold the integrity of their missions. Non-compliance can result in financial penalties, jeopardising the resources available for fulfilling the organisation's charitable objectives.

Prioritising a robust compliance framework fosters transparency, helping not for profits demonstrate accountability to donors, government agencies, and the broader community. Therefore, a steadfast commitment to payroll compliance is essential for not for profits entities to navigate the intricate regulatory landscape and fulfil their social responsibilities effectively.

TECHNOLOGY

Implementing the right technology can vastly improve an organisation's overall efficiency and performance, as well as improve employee productivity, communication, collaboration, morale and engagement.

Technology enhances efficiency and that can have a direct impact on how much work a not for profit is able to achieve considering the limited resources they may have. By using technology to work smarter rather than harder, not for profit leaders can plan wisely for current and future needs, which will help them to prioritise their time, budget, workforce, and programs.

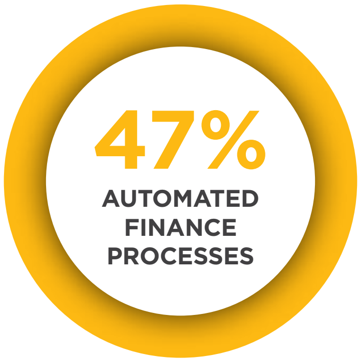
Cloud-based technologies are a popular choice for organisations looking to improve efficiency. 95% of respondents said that they are currently using cloud-based software. Cloud-based software can be used as a foundation for organisations looking to automate finance processes.

What technologies are you currently using to assist with your finance and operational processes?

ANSWER CHOICES	RESPONSES
Cloud based software	95%
Optical Character Recognition (OCR) technology	9%
None	5%
AI/Machine Learning (RPA)	2%
Other	2%
Robotic Process Automation (RPA)	0%

When asked, respondents noted that just under half of their current finance processes were automated.

To what extent are your current finance processes automated?



This is similar to our findings in 2022. Whilst most organisations are now using cloud-based software, it may not be able to cut through and help with automating processes. Organisations may also be put off by the 'perceived' investment required – both from a financial point of view and the resourcing required. Robotic Process Automation could significantly assist with automating more processes, and we note that no respondents said that they are currently using this technology.

Having the right technology to help your organisation meet its strategic goals is critical, however, in recent years there has been a surge in technological solutions catering to different markets. This makes it difficult for organisations to choose the solutions that are right for them. We note that 38% of respondents said that they are planning on investing in new technology within the next 6 to 18 months.

"By using technology to work smarter rather than harder, not for profit leaders can plan wisely for current and future needs"

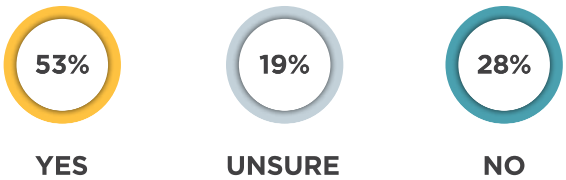
TECHNOLOGY (CONT.)

Are you planning on investing in any new technologies?

ANSWER CHOICES	RESPONSES
Invested in last 12 months	27%
Within next 6-18 months	38%
Within next 1-3 years	12%
No current plans	23%

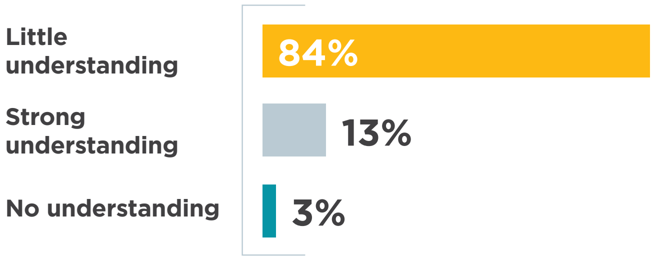
We saw similar responses to our 2022 survey when we asked whether your current finance systems and processes would be able to support the organisation through future growth, with 53% responding yes.

Will your current finance systems and processes be able to support the organisation through future growth?



This year, we asked several questions about Artificial Intelligence (AI). Large language models like ChatGPT or Google Bard took the world by storm in 2023 and thousands of AI applications have been released in the last few years. Considering this, we asked respondents what their level of understanding of AI and its applications is.

What is your level of understanding of AI and its applications?



84% of respondents noted that they have little understanding of AI and its applications. This is understandable! AI is a broad term that refers to a lot of different technologies. These technologies seek to mimic human behaviour and the way humans think. AI models can learn from large amounts of data, find patterns, and predict answers to questions.

We asked respondents whether they agreed or disagreed with the following statements about AI.

To what extent do you agree or disagree with the following statements?

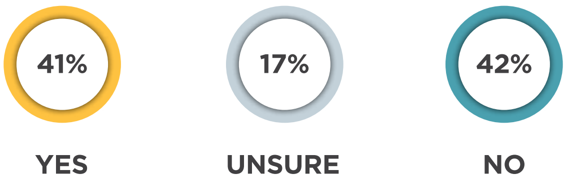
	STRONGLY AGREE	AGREE	NEUTRAL	DISAGREE	STRONGLY DISAGREE
AI is here to stay	59%	38%	3%	0%	0%
AI will positively impact my day-to-day work	22%	47%	27%	3%	1%
We will be able to achieve more as an organisation with AI	23%	45%	30%	0%	2%
We have the necessary skills and budget to implement AI	2%	8%	34%	37%	19%

TECHNOLOGY (CONT.)

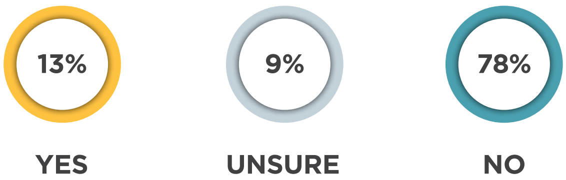
Most respondents agreed that AI is here to stay and that it will have a positive impact both on their day-to-day work and their organisations. However, the majority of respondents said that they do not have the necessary skills and budget to implement AI solutions. We recommend talking to the staff within your organisation about whether they have used an AI tool like ChatGPT – when have they used it and how have they used it? Your staff may already have found some quick wins.

Approximately 41% of respondents said that they have considered the impact AI will have on their organisation. Only 13% have included AI or automation in their strategic plans.

Have you considered the impact that AI will have on your organisation in the future?



Have you included AI/Automation in your strategic plan?



We recommend thinking strategically about how AI or Automation will be able to help your organisations in the future.

More than half of respondents said that lack of skills and resources were stopping their organisations from investing in new technology.

What is stopping you from investing in new technology within your organisation?

ANSWER CHOICES	RESPONSES
Lack of necessary skills	13%
Lack of resources	53%
Resistance to change	9%
Other	25%

This is consistent with the responses below noting that for 45% of respondents, less than a third of the positions in their organisation require technology and innovation skills as part of their job description.

What percentage of positions in your organisation require technology and innovation skills as part of their job descriptions?

ANSWER CHOICES	RESPONSES
0 - 33%	45%
34 - 66%	27%
67 - 100%	28%

It is becoming more and more important for staff within organisations to be familiar with technology to be able to perform their roles. If you are looking to improve efficiency and work smarter, not harder, then it is also important to foster a culture of innovation. Freeing up time for staff by automating manual processes can give people the headspace that they need to think creatively.

CYBER SECURITY

We can only look at the recent Optus outage to understand the impact that technology plays across organisations. Whilst this outage wasn't the result of an attack (as far as we know) it only reminds us how vulnerable organisations can be to technology weaknesses.

In our 2023 Not for Profit Leaders Report on Strategic Planning, we asked whether respondents were concerned about a cyber-attack on their organisation with 88 per cent responding yes. We also asked what your greatest data risk was, with 66% responding client/member information and 16% donor information.

History highlights that a cyber attack can be detrimental to both the finances and the reputation of an organisation, and not for profits are not immune to this.

CYBER SECURITY POLICY AND PROCEDURES

We asked whether you had formal cyber security policies and procedures in place, with 77% responding yes. Organisations that do not yet have these in place would be wise to speak to an expert to ensure they are minimising their risk in this area.

Do you have formal cyber security policy and procedures?

77% YES

6% UNSURE

17% NO

Whilst it's great to have formal procedures in place, if you aren't testing your technology system, your procedures and policies aren't worth much.

Do you perform regular vulnerability and Intrusion Detection Scans as part of your cyber security health-checks?

ANSWER CHOICES	RESPONSES
Yes	58%
No	23%
Informal procedures exist	19%

Testing will help to identify and address any potential weaknesses. They will help prevent data breaches, protect information, maintaining customer/stakeholder trust and ensure regulatory compliance.

It is highly recommended that organisations look to engage a cyber security expert to ensure your systems are secure to protect not only your own information but also that of your customers, donors and stakeholders.

SERVICE PROVIDERS

We asked if you had third party IT service providers with a large majority of 91% saying they did.

Do you have third party vendors or managed IT service providers?

91% YES

9% NO

Cyber security experts may already exist within your outsourced providers, but it is best to check. If not, they should be able to provide you with recommendations. Alternatively, the team at HLB Mann Judd can provide you with recommendations.

The risk of not having your systems secure is much higher than the price it will pay to check and test on a regular basis.

CYBER SECURITY (CONT.)

When looking at one of the risks in your IT systems it is important to have control over your external providers. Your provider should be giving you regular updates on your systems, their performance and any identified risks or issues.

Do you have monitoring control over your third party managed IT service providers?

ANSWER CHOICES	RESPONSES
Yes	34%
No	25%
Informal procedures exist	41%

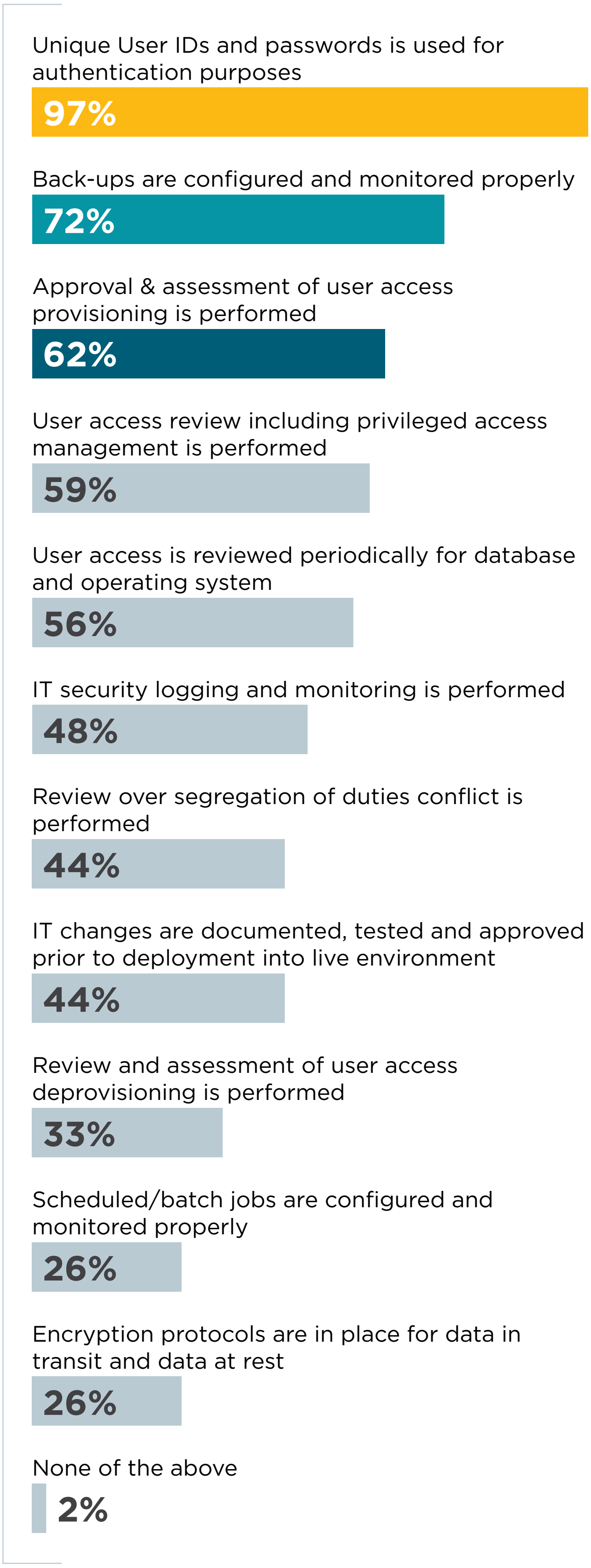
GENERAL IT CONTROLS

With so much risk attached to IT systems and financial data held by not for profit organisations, we asked what controls your organisation had in place. See the full list of controls in the next column.

Select which of the following General IT Controls exist for your financial systems.

It was great to see so many organisations have controls in place. Some of the areas of concern we see in the results include the lack of periodic reviews, lack of segregation of duty reviews and lack of encryption protocols.

To ensure your organisation is minimising its risks, it would be worth looking at the list above, discussing them with your board and management team and prioritising these controls.



CYBER SECURITY (CONT.)

BUSINESS CONTINUITY PLAN

A business continuity plan (BCP) is a comprehensive plan outlining how an organisation will maintain essential functions during and after a significant disruption. The goal of the plan is to ensure that critical business processes can continue to operate or quickly be restored in the event of unforeseen incidents including cyber-attacks.

If there is one thing businesses learned from the pandemic, it was how important a business continuity plan was. But as with all plans if they aren't reviewed and updated they can be worthless.

We asked whether your BCP had been reviewed and updated over the past 12 months.

Has the adequacy of the Business Continuity Plan (BCP) been reconsidered in the past 12 months, and if necessary have updates been made?

ANSWER CHOICES	RESPONSES
No BCP exists	27%
The BCP exists but has not been reviewed for a while	28%
Management agreed that it is not necessary to update the BCP in the last 12 months - it remains appropriate	9%
The BCP was reviewed and approved, by the relevant stakeholders in the last 12 months	36%

For organisations that do not have a BCP or have not reviewed theirs recently, it is time to add this on the agenda.

DISASTER RECOVERY PLAN

Where a business continuity plan focuses on ensuring the essential business functions can continue after a disruption, a disaster recovery plan (DRP) specifically deals with the IT aspects of recovering and restoring technology infrastructure after a disruption.

We asked whether your DRP had been reviewed and updated over the past 12 months.

Has the adequacy of the Disaster Recovery Plan (DRP) been considered in the last 12 months, and if necessary have updates been made?

ANSWER CHOICES	RESPONSES
A DRP exists but has not been reviewed for a while	29%
Management agreed that it is not necessary to update the DRP in the last 12 months - it remains appropriate	5%
No DRP exists	29%
The DRP was reviewed and approved by the relevant stakeholders in the last 12 months	26%
The DRP was reviewed and approved by the relevant stakeholders in the last 12 months. Various methods were used to ensure that the DRP was optimised	11%

The results from this question were varied with 58% responding that they either didn't have a DRP or that they hadn't reviewed it recently. Pleasingly 37% had reviewed their DRP over the last 12 months.

When looking at the cyber security risk to organisations, it is critical that you have a DPR in place.

RISK

The management of risk is a major aspect in establishing and continuing the brand and credibility of a not for profit. The appropriate use of donations and government funding, including protection of those funds, is critical to a not for profit being able to continue to raise funds and operations as a going concern.

Notwithstanding their size, the management and protection of financial resources is a critical concern for all not for profit organisations. Managing existing financial assets whether they be money or goods/services is a necessity to all organisations, but even more crucial dealing with donations (including the individual or companies involved) or grant funding for important public works/support provided by the NFP industry.

When asked if the organisation had an instance of fraud, 17% said yes, which was an increase from 10% reported last year. Unfortunately, this is an indicator of the economic pressures in the economy with higher levels of fraud evident across many areas.

Have you had any instance of fraud?

17% YES

83% NO

When asked how susceptible your organisation was to risk, where 1 was not at all and 5 extremely susceptible, the majority of respondents (75%) responded with a 1 or 2 and the average score given was a 2.

When asked how confident people were that their systems could prevent and pick-up fraud, 72% said they were confident with 19% unsure and 9% not confident. These results were similar to those for 2022.

How confident are you that your systems can prevent and pick-up fraud?

72% CONFIDENT

19% UNSURE

9% NOT CONFIDENT

Unfortunately, the NFP sector has a high prevalence of fraud, with many organisations being subject to theft of goods, assets or financial loss through a verity of schemes including employee collusion, undeclared revenue, overpayment of wages and unauthorised expenses.

High employee turnover is also a key risk to an organisation. As outlined earlier, 56% of organisations have had turnover within their finance team.

This turnover, in addition to the increased cyber security risk, could allow more fraud to occur. Best practice is to have specific internal or external fraud reviews conducted every few years, especially in areas of higher fraud risk, including management of funds, payment approvals etc.

Fraud can create significant issues at a credibility and brand that can impact overall viability of the business if not managed.

Overall, although potentially not the sexiest part of the management of a not for profit, the risk aspects need constant consideration to ensure the ongoing visibility to pursue the community benefit that is the ultimate target.

On more general governance issues, when we asked how confident that your organisation is complying with all appropriate laws and regulations, 83% of respondents confirmed they were confident (on par to the 84% reported in 2022).

Are you confident are you that you comply with all appropriate laws and regulations?

83% CONFIDENT

11% UNSURE

6% NOT CONFIDENT

OUR NFP STRATEGY LINK

HLB Mann Judd has developed the NFP Strategy Link, a process to give more power to strategic thinking and operations of NFPs. This process can add significant impact to setting your strategies, and even more importantly, implementing them.

Where is your organisation in the process? Are you confident that you have considered all variable factors to include in your Strategic Plan? If you have any questions or require guidance, please reach out to our Not for Profit team.

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COMPLIMENTARY BUSINESS REVIEWS

As a valued member of our ENFP Community we would like to provide you with a complimentary review on your financial management, including:

- Resourcing / Finance function
- Technology / Financial transformation
- Forecasting / Financial modelling.

We can also assist you with:

- Audit & Assurance
- Strategic Planning
- Mergers & Acquisitions
- Tax strategies.

If you wish to take up this offer please contact
Kim Kelloway, Head of Clients & Markets on 02 9020 4285 or email kkelloway@hlbnsw.com.au

ABOUT HLB MANN JUDD

HLB Mann Judd is a leading award-winning chartered accounting and advisory firm. Mann Judd was formed in 1970 and through natural growth the business has become one of Sydney's highly regarded "people-sized" accounting practices. In 1998 Mann Judd firms were re-badged as HLB Mann Judd in recognition of our affiliation with the HLB International global network.

The HLB Mann Judd Australasian network has 89 Partners with offices in most major Australian business centres as well as NZ and Fiji. As members of HLB International, the global advisory and accounting network (a global network of accounting and advisory firms with 1030 offices in 157 countries), our clients also have access to worldwide expertise.

The Sydney firm has over 30 Partners and Directors and over 180 staff members.

HLB Mann Judd Partners and staff are deeply committed to Australia's growing NFP sector. In 2010, HLB Mann Judd Sydney, in collaboration with the Commonwealth Bank, founded the ENFP Community which provides significant benefits to the sector.

The ENFP community provides:

- Exclusive boardroom briefings for NFPs (a brochure showing past topics and speakers is available)
- An exclusive LinkedIn group with over 1000 key decision makers in the NFP sector
- Opportunities to collaborate and to share thoughts, ideas and solutions with other NFPs.

To join the ENFP Community please contact Kim Kelloway Head of Clients and Markets kkelloway@hlbnsw.com.au or 02 9020 4285.

ENFP COMMUNITY

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