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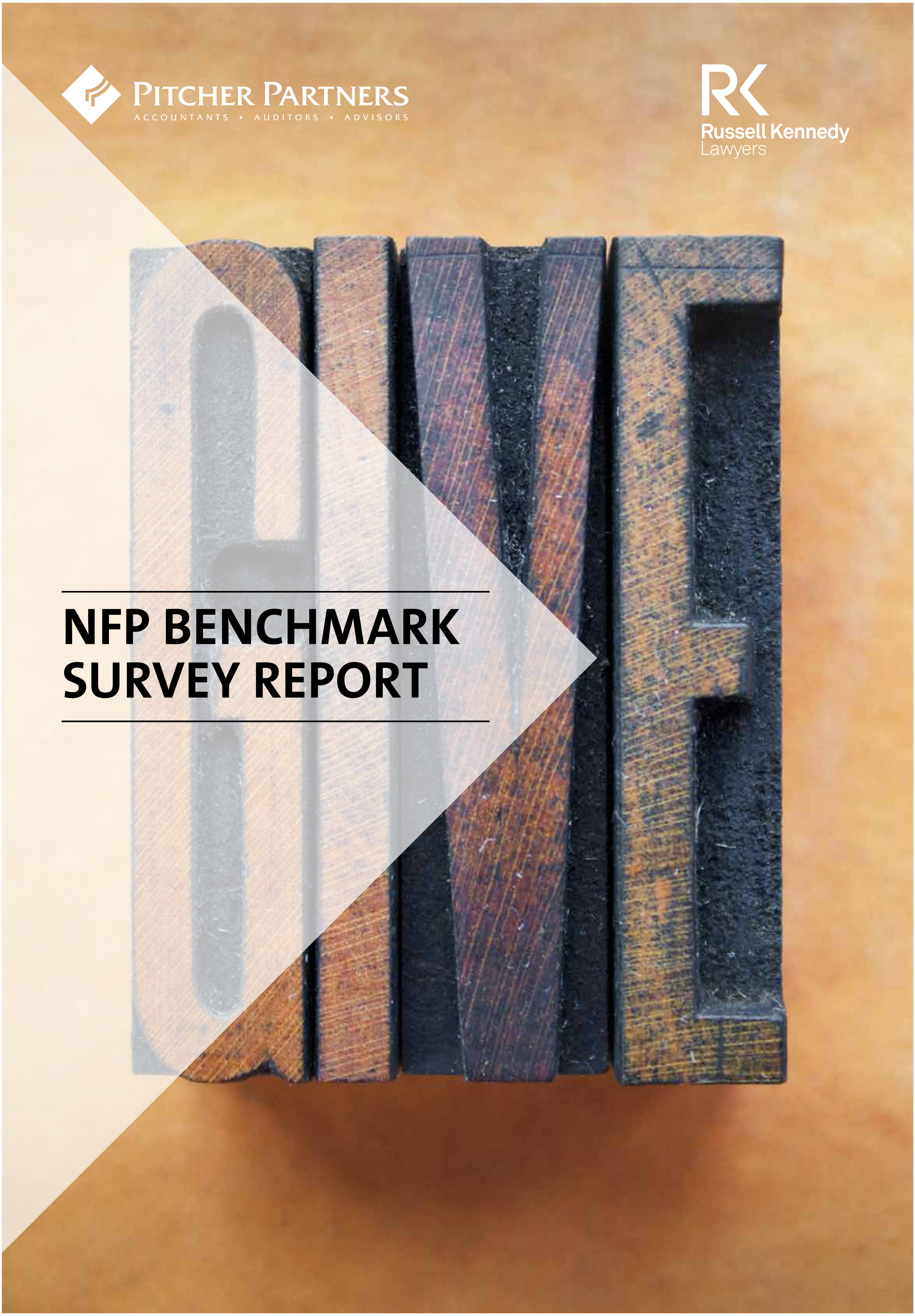


NFP BENCHMARK SURVEY REPORT

CONTENTS

FOREWORD

Russell Kennedy Lawyers and Pitcher Partners are pleased to present the inaugural benchmark report for the not-for-profit sector.

The report draws together insights from over 100 survey respondents on topics such as governance, strategy, fundraising, risk management and the use of volunteer and professional resources.

We wish to thank respondents for participating and contributing to the survey. We hope that you find our report and analysis to be a valuable contribution to the not-for-profit sector, as it develops into the future.

Yours sincerely

Michael Gorton
Principal
Russell Kennedy Lawyers

Sue Dahn
Partner/Executive Director
Pitcher Partners

KEY IMPLICATIONS

The Survey highlights that many not-for-profit (NFP) organisations rely strongly on Government assistance. We believe there is a need for these organisations to develop alternate means of financing and social enterprise. Organisations need to ensure that they can maintain solvency in the event of a change in policy or funding by setting aside monies for existing commitments, and a fund for short term operations, together with managing their cost base to be flexible enough to respond appropriately to changes in funding streams.

It is also necessary for NFPs to consider the management of various tax status benefits to ensure no compliance issues arise. Recent ACNC and ATO activity evidences a willingness to revoke tax benefits of NFP entities when non-compliance occurs, which is a risk that most NFPs cannot afford to expose themselves to.

We have also identified that there is an opportunity for NFP organisations to move toward more sustainable funding models by adopting commercial funding streams, rather than relying on fund raising as an ancillary source of monies.

Most respondents indicated that there is value to be derived from external regulatory requirements. This supports findings last year that almost 80% of submissions to the Senate Economics Legislation committee inquiry into the possible repeal of the Australian Charities and Not-for-profits Commission (ACNC) do not support the government's plans to repeal the ACNC Act and disband the ACNC. Clearly there is a role for an external regulatory body to support and sustain the sector, and both Pitcher Partners and Russell Kennedy advocate ongoing commitment to this pursuit.

ABOUT RUSSELL KENNEDY

At Russell Kennedy we make a difference to our clients' by providing value for money and practical legal services. We have acted for clients in the not-for-profit sector for more than 25 years. We understand how legal and compliance issues impact on their ability to provide services which assist, support, guide and inform the community sectors in which they operate.

Working with our clients' goals in mind, we offer a range of services to the not-for-profit sector:

- Structuring advice and legal documentation for the establishment of operations
- Corporate governance
- Regulatory compliance
- Risk management
- Protection of intellectual property, including copyright and trademark registrations
- Competition requirements
- Grant applications and funding agreements
- Fundraising
- Service delivery requirements
- Charitable giving and structuring including charitable trusts and ancillary funds
- Property and commercial transactions
- Taxation endorsement and concessions
- Submissions to government
- Employment and workplace health and safety
- Licensing and accreditation
- Dispute resolution

ABOUT PITCHER PARTNERS

Pitcher Partners have a wealth of experience in assisting not-for-profit clients to understand and implement sound financial management practices which include:

- Accounting
- Investment Advice
- Internal Audit and Risk Management
- Asset Protection
- External Audit
- Strategy and Organisation
- Tax Consulting and Compliance
- Transaction Services

Pitcher Partners was founded on the principles of personal service, honesty, trust and open communication and is deeply committed to client care as well as cost effective client outcomes. We take great pride in our reputation for these values within the business community. We are also proud of our reputation as a caring employer, providing an environment that allows our professional and support staff to reach their potential, meet challenges and achieve recognition for services outside the firm. Our commitment to care for our clients and staff extends to the wider community and we have a long history of supportive community involvement overseen by our Corporate Social Responsibility Committee.

ABOUT THE SURVEY

In August 2014, accounting firm Pitcher Partners and legal firm Russell Kennedy joined forces to release an annual benchmarking survey for our clients and contacts in the not-for-profit sector.

The aim of the benchmark survey is to let not-for-profit organisations and charities to benchmark themselves against their peers. The inaugural benchmark survey focused on governance, strategy, fundraising, risk management and the use of volunteer and professional resources.

To complete the survey, organisations were encouraged to arrange for responses by a senior executive such as a Finance Manager, Operations Manager, Deputy CEO or similar person who has a broad knowledge of the whole organisation.

Many not-for-profit organisations report according to a 30 June year end. The survey remained open until late October 2014 in order to give these organisations an opportunity to respond with their latest data.

While the survey requested some basic information about respondent organisation, the benchmark survey tried to focus on areas where regulators collect limited data. This is particularly the case for board governance, strategy/compliance and risk management.

As previously mentioned, the benchmark survey tried to focus on areas where regulators collect limited data. For example, since the commencement of the Australian Charities and Not-for-profits Commission, basic data has been collected for charities such as the states and territories in which charities operate, and the charity classification (ie type of charity). The Australian Securities & Investments Commission and the Australian Taxation Office do not collate or report statistics in this way. The topics and questions from our benchmark survey are unlikely to be collected as baseline data by other regulators.

The following range of topics were covered by the inaugural survey:

- Organisation type and size
- Tax concessions
- Fundraising
- Governance (Board / Meetings / Committees / Governing Documents / Members)
- Strategy, operations and compliance
- Risk Management and Audit
- Volunteers
- Professional Services

The benchmark will be repeated every 12 months to identify sector developments and emerging trends. In the coming years, the survey may also be expanded to examine further areas of interest to the sector.

The complete data results can be found at

http://www.pitcher.com.au/nfp-survey-2015-data

PROFILE OF SURVEY RESPONDENTS

The survey invitation was circulated to both Russell Kennedy and Pitcher Partner clients, as well as more broadly on social media and to members of several industry associations. More than 100 organisations responded to the survey between August and October 2014.

About 80% of respondents classified themselves as "large" not-for-profits. The Australian Charities and Not-for-profits Commission considers a charity to be large if its revenue exceeds $1 million revenue. The Australian Securities & Investments Commission also uses this revenue threshold to classify companies limited by guarantee which are not charities.

The profile of our survey respondents is markedly different to the profile of registered charities. Based on published ACNC data for 59,000 registered charities, about 70% of charities are small, and 15% / 15% are medium and large respectively.

The survey therefore provides a significantly richer insight into large not-for-profit organisations.

SURVEY METRICS

Legal structure

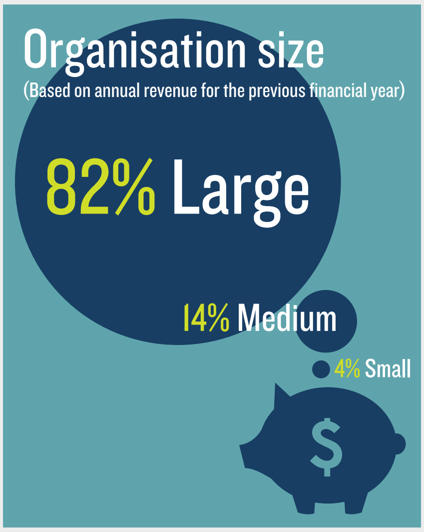
The most common legal structure was "Company limited by guarantee". Almost half of respondent organisations (44%) use that structure. The next most common legal structure was "Incorporated Association", used by about one third of respondent organisations (35%).

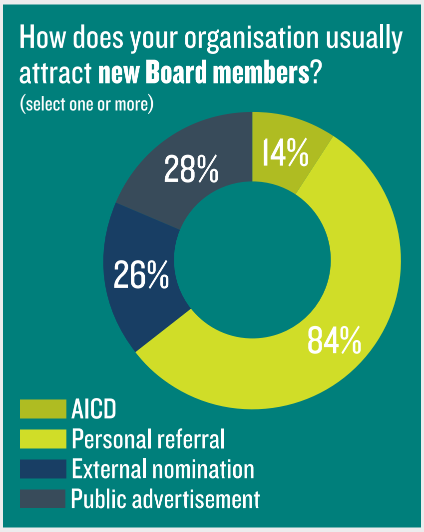
Size

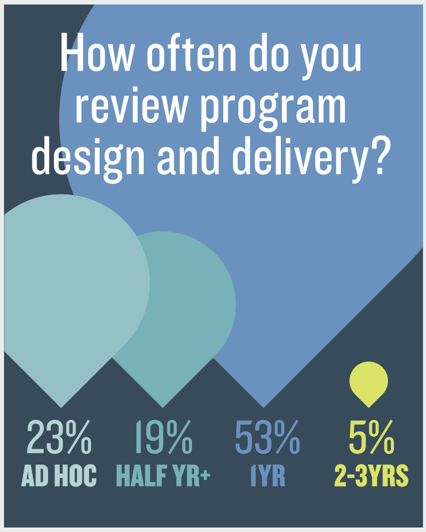
Respondents were mostly large-sized organisations with revenue over $1 million per year (82%).

Paid employees

Almost three in five (57%) organisations had 100 or more paid employees. However, there were also a notable number of organisations (20%) with 9 or less employees, which roughly corresponds with the number of small and medium sized organisations (20% in total).







CEO on boards

About half (47%) of respondents reported that their CEO is not on the board of their organisation. For organisations whose CEOs are on the Board (53%), 20% vote and 33% were non-voting.

Attracting new board members

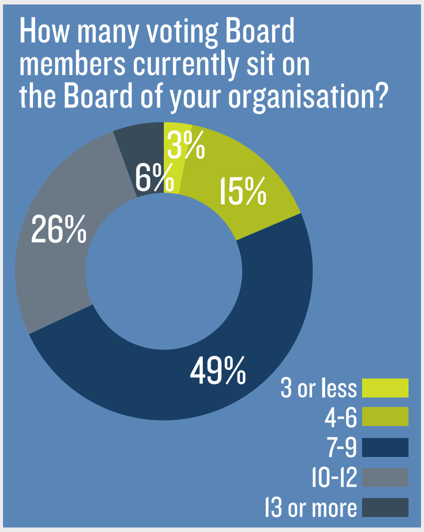
The most common method for recruiting board members was personal referrals (used by 84% of respondents). The next most common recruitment methods were public advertisements (used by 28% of respondents) and external nominations (26%) and the Australian Institute of Company Directors referral service (14%).

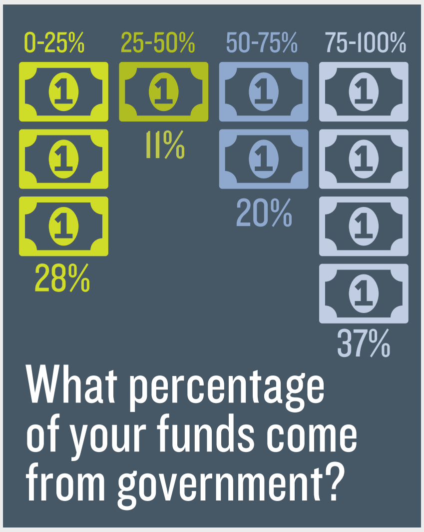
Program reviews

About half (53%) of respondents reviewed the design and delivery of their programs annually. Another quarter (23%) reviewed programs on an ad-hoc basis. Slightly less again (19%) conducted reviews about every half year.

Number of board members

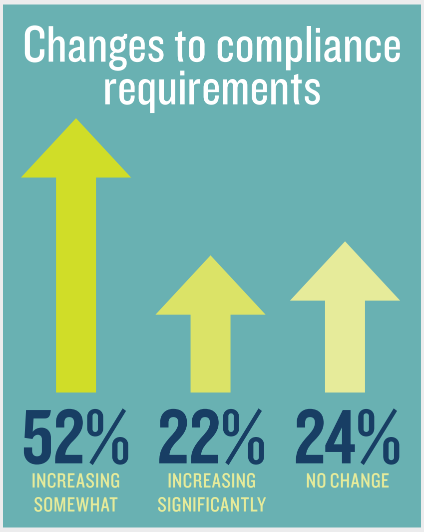
About half (49%) of respondent organisations had 7 to 9 board members. Another quarter (26%) had 10-12 board members. Odd numbers of board members were significantly more common than even numbers of board members.





Government funding

There was a broad spread of respondent organisations. Many reported being heavily dependent on government funds (37% relied on government for three quarters or more of their funding). Others reported being lightly dependent on government funding (28% relied on government for one quarter or less of their funding).



Importance of compliance record

About half (53%) of respondents thought that compliance was always important to their funders, donors and partners. One in five (20%) thought compliance was usually important. A smaller number thought compliance was sometimes important (15%) or not important (14%).

Changes in compliance requirements

Most respondents thought that compliance requirements had “increased somewhat” (52%) or “increased significantly” (22%) in the last financial year. The remaining quarter (24%) of respondents thought that there had been no change. Few respondents thought that compliance requirements had decreased somewhat or decreased significantly.

DETAILED PROFILE OF RESPONDENT ORGANISATIONS

Type of organisation

The legal structures most commonly used by not-for-profits are "incorporated associations" and "companies limited by guarantee".

Of those who responded to the survey, "companies limited by guarantee" (42%) were slightly more prevalent than "incorporated associations" (36%).

New not-for-profits often face having to decide between establishing as a company or an association. Existing not-for-profits often face the question of whether to change from an association into a company (or vice versa). The survey results indicate that larger not-for-profits tend to be companies.

Size of organisation

As discussed at Part 3 of this report, about 80% of respondents classified themselves as "large" not-for-profits ($1 million revenue or more). This can be contrasted with the profile of registered charities where about 70% are small (revenue of $250,000 or less).

Funds from government and commercial activities

Nearly 40% of respondents rely on government for three quarters or more of their funds. More than 60% of respondents rely on government for more than half their funding.

In contrast, more than 60% of respondents noted that commercial activity accounted for up to a quarter of funds. A much smaller spread of respondents (7-14% in each quartile) reported that commercial activity produced funds.

For many years, there has been ongoing uncertainty as to whether not-for-profits may pursue commercial activity without affecting their tax statuses. The High Court decided in December 2008 that an organisation which undertakes commercial enterprises which are not intrinsically charitable will still be a charity if it applies all profits for charitable purposes. Since then, there has been uncertainty with government policies that such enterprises should be taxed.

If your organisation is considering an expansion of its commercial activities, you are encouraged to seek legal and accounting advice.

Senior managers and employees

There was a fairly even spread of the respondents with a quarter of respondents having 0-2 managers, 3-4 managers or 5-7 managers. This indicates that large organisations may be designed to keep the number of direct reports to the Board manageable and below 7.

Almost three in five (57%) organisations had 100 or more paid employees. However, there were also a notable number of organisations (20%) with 9 or less employees, which roughly corresponds with the number of small and medium sized organisations (20% in total).

Charities, non-charities and type of charity

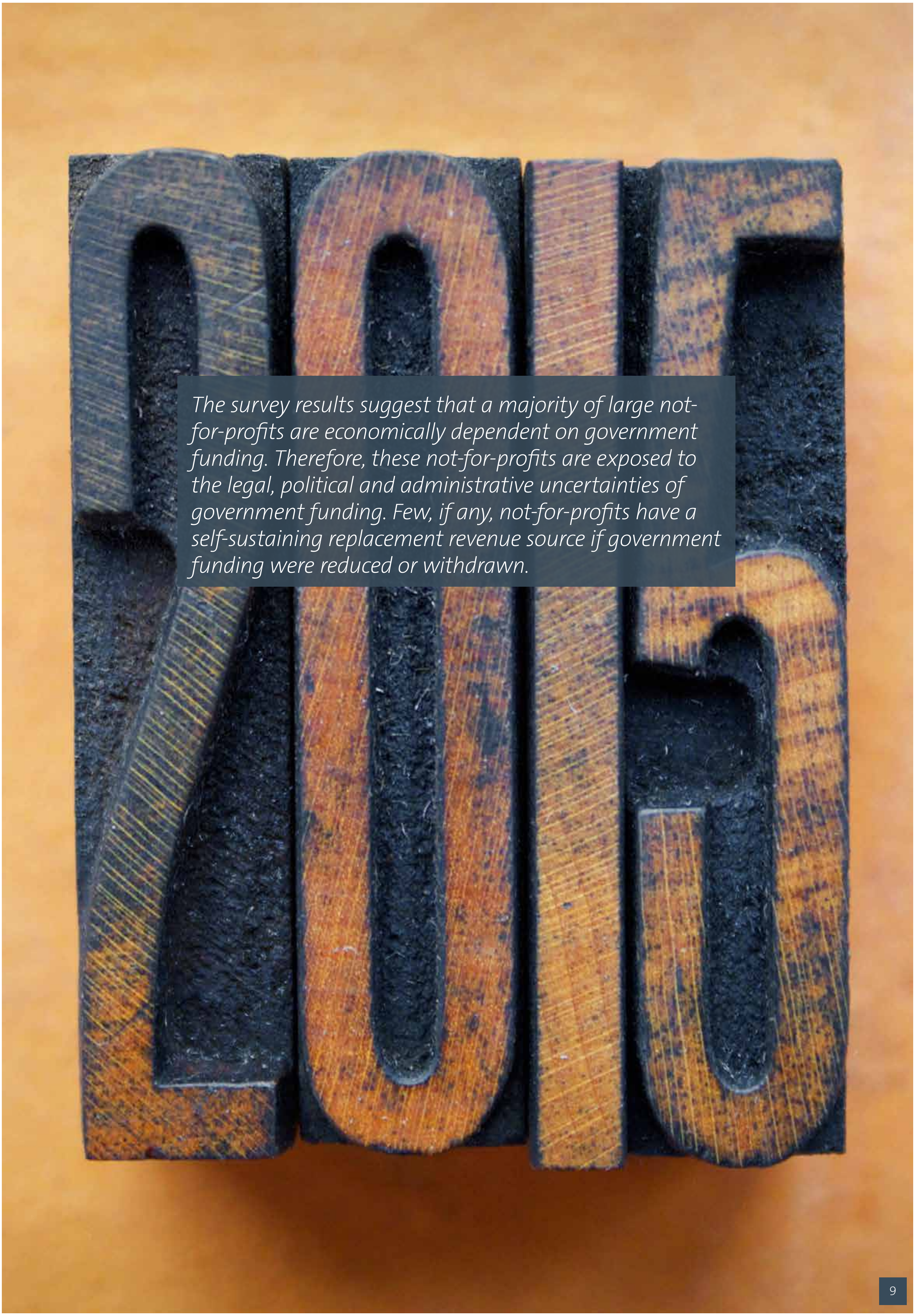
About 80% of respondents are charities. Of those respondents, our survey had significant clusters of the following charities respond:

- Aged persons (usually a public benevolent institution) (35%)
- Health (sometimes a public benevolent institution) (19%)
- Poverty and unemployment (usually a public benevolent institution) (12%)
- People with disabilities (usually a public benevolent institution) (10%)

The survey results can be contrasted with data published by the ACNC, where there are significant numbers of "public benevolent institutions", charities which advance education and charities which advance religion. However, 33,000 charities (being more than half of all registered charities) also pursue other charitable purposes which have not been classified.

The survey results reflect our practical experience that "public benevolent institution" is one of the most important types of charity, but that there is significant variation in the domains in which they operate.

We also note that Russell Kennedy and Pitcher Partners have a significant number of aged care, health, poverty and disability clients.



The survey results suggest that a majority of large not-for-profits are economically dependent on government funding. Therefore, these not-for-profits are exposed to the legal, political and administrative uncertainties of government funding. Few, if any, not-for-profits have a self-sustaining replacement revenue source if government funding were reduced or withdrawn.

TAX CONCESSIONS

Almost all respondents (93%) reported that their organisation can receive deductible gifts. About four-fifths (79%) reported that their organisation is income tax exempt. About two thirds of respondents reported having a payroll tax exemption and a full fringe benefits tax exemption.

The survey results suggest that not-for-profits may not understand the difference between the "income tax exemption" and "deductible gift recipient" endorsement.

These are fundamental issues for not-for-profit organisations which distinguishes them from taxable for-profit entities.

An income tax exemption means that if a not-for-profit achieves a surplus (revenue exceeding expenses), it does not have to pay income tax on the surplus.

Deductible gift recipient endorsement means a donor to the not-for-profit, typically an individual, can claim a tax deduction on their personal tax return.

Under the income tax exemption and deductible gift recipient eligibility rules, deductible gift recipients tend to be a very narrow subset of all not-for-profits and charities. Few, if any, deductible gift recipient categories are awarded to taxable charities.

We expected to see more respondents with an income tax exemption than with deductible gift recipient status.

We would encourage not-for-profits to review their tax concessions with their lawyers and accountants to ensure that the tax concessions are being correctly claimed.

FUNDRAISING

Charitable fundraising registrations and fundraising events

We were pleased to see an overwhelming majority (80%) of respondents are registered to fundraise in Victoria.

The survey results indicate that about 10 percent of respondents are registered to raise funds in all applicable states and territories. As the charitable fundraising registrations vary across the states and territories, the burden of maintaining these registrations would be high.

Respondents registered only in Victoria are encouraged to carefully monitor whether they seek online donations or solicit donations from persons outside Victoria. Interstate registrations may be needed.

Despite over 80% of respondents having some form of fundraising registration, we were surprised that almost half (46%) of respondents indicated that they do not actively fundraise.

We received a broad range of responses regarding the types of events being held, and it is difficult to drawn any clear conclusions as to what types of fundraising activities are most popular. This question will be refined for future benchmark surveys.

We note that the survey results reflect that Russell Kennedy and Pitcher Partners have significant numbers of Victorian and national clients.

Fundraising costs

We were surprised and concerned that 30% of respondents reported that the percentage of fundraising proceeds going towards fundraising costs exceeded 25%.

Where fundraising costs exceed 25% of the amounts raised (and particularly where the costs exceed 75% of the amounts raised), not-for-profit organisations should review the viability of continuing with these fundraising initiatives.

A high percentage of fundraising costs can detrimentally affect a not-for-profit's reputation and reduce the future willingness of donors to donate.

GOVERNANCE – BOARD STRUCTURE

Size of the governing board

The optimum number of board members is a commonly debated topic in the area of governance.

The median number of board members was 9, and the average was 8.6 board members.

Within the range of 7 to 10 board members, the following were most commonly encountered:

- 9 board members (23%)
- 7 or 10 board members (15% each)
- 8 board members (11%)

Odd numbers such as 9 and 7 may have been chosen to help break deadlocks or ensure deadlocks cannot occur. We did not expect 10 board members to be more common than 8 board members.

Of the respondents, 20% had between 1 and 6 board members. This roughly correlates with the number of small and medium sized organisations (20% in total).

Of the respondents, about 15% had 11 or more board members. We were particularly concerned that 5% of respondents had 13 or more board members. In our experience, boards of this size are undesirable because:

- there are additional administration costs for management
- there can be additional costs to reimburse board members for attending board meetings
- board meetings can be less efficient
- there is the greater potential for absent board members, low or non-contributing board members, and who therefore may not meet the standard of care and diligence required by law

If your organisation's board has 11 or more board members, consideration should be given to reducing its size.

Relationship between the CEO and the Board

Based on the responses, the most common structure is for the CEO to report to, but not be a member of the Board. This was the structure for almost half (47%) of respondents. It provides a clear separation between day-to-day management and strategic governance.

However, it is acknowledged that most parts of board meetings will require the CEO to be in attendance. 33% of respondents indicated that the CEO is a member of the Board but cannot vote.

We were surprised by the number of respondents who indicated that the CEO is both a member of the board and entitled to vote. About 20% of respondents have this structure. CEOs with voting rights are more commonly known as "managing directors", and are more prevalent in private and for-profit public companies.

Secretary

Most not-for-profit associations and companies are required to have a "secretary" (also known as a public officer). The secretary keeps the corporate regulator notified of changes to the organisation's details (eg place of business). For companies, the secretary can also be one of two signatories to sign documents in accordance with the Corporations Act.

About three quarters (72%) of respondents allocated the role of secretary to an employee. The CEO was the most common choice (45%), followed by other employees (27%) such as corporate services managers or finance managers.

Another quarter (24%) of respondents reserved the role of secretary to the board.

From a governance perspective, some organisations see an advantage in having a board member perform the secretary role and it being the board's prerogative. However, other organisations prefer the secretary to be an employee because that person will be available during business hours to sign documents and perform other administrative tasks.

Retirement of board members

Based on responses, board members serving terms of about three years were most common (73%). A much smaller number of respondents had board members serving about two years (14%) or one year (12%).

In our experience, board members need time to gain organisational knowledge and experience to settle into the role of board member.

Longer terms also facilitate knowledge transfer and better continuity of decision making.

However, members sometimes resist longer terms because they fear losing control of the board, limited numbers of vacancies, and some years with no vacancies (depending on the finer detail of how the constitution operates).

The survey results indicate that fixed terms (65%) are more popular than retirement at annual general meetings (35%). This provides certainty and simplicity for board members as to when they start and end (eg commencing on 1 January the year after being elected). Start dates aligned to annual general meetings can lead to uncertainty depending on when AGMs are scheduled. They can also complicate the calculation of terms of service.

Attracting new board members

The most common method for recruiting board members was personal referrals (used by 84% of respondents). The next most common recruitment methods were public advertisements (used by 28% of respondents) and external nominations (26%) and the Australian Institute of Company Directors referral service (14%).

Some respondents also indicated that some or all of their positions were filled by nominee organisations (eg affiliated organisations or government appointments).

Number of board meetings

Since many respondents were larger not-for-profits, it is not surprising to find that most boards meet monthly or more frequently (62%). About a quarter of boards (25%) meet every two months, and about an eighth of boards (13%) meet less frequently than every two months.

For those boards which meet less frequently, we are mindful that there may be other committee meetings to consider board matters (eg finance committees). However, each board member is still expected to fulfil their director duties and should not rely on committees to do the board's work.

Board payments

Since not-for-profit organisations are established for charitable and other purposes, rather than to pursue profit, the organisation's legal ability to make board payments is generally restricted. Board members ought to serve for those altruistic purposes, not for the self interest of receiving remuneration.

Even though many respondents were larger not-for-profits who manage revenues exceeding $1 million, almost half of respondents (48%) indicated that board members do not receive any fees nor reimbursement of approved expenses. About one third (34%) of respondents only permitted board members to receive reimbursement of approved expenses (eg costs incurred to attend board meetings).

The survey results show that many board members are generously donating their time and even paying their own expenses as a further way to support their organisation. Not-for-profit board members should be applauded for these efforts.

We note that about 12% of respondents indicated that honorariums of $5,000 or more are being paid. The rules of some not-for-profit organisations allow the payment of "reasonable fees".

Particularly for the largest not-for-profits (eg $10 million+ revenue), it becomes difficult to expect board members to receive nothing whatsoever as the time commitment increases for managing significant organisations.

GOVERNANCE – MEMBERS

Number of Voting Members

There was a broad spread of organisations across small and large memberships.

About one third of respondents had a small membership of less than 10 members. This structure is commonly used where the board members are the only members. However, not all not-for-profit organisations can be structured this way. We are aware of some charities which have not been recognised to be an institution (eg for deductible gift recipient status) due to a small membership.

There were also a significant number of respondents (23%) with 100 or more members.

We expected significant variation as the purpose of memberships varies across not-for-profit organisations. For example, industry bodies and professional societies tend to have larger memberships. Some not-for-profits collect significant subscriptions from members, or use them as a donation or volunteer base. Others still use membership to either develop future leaders for the board, to build engagement with stakeholders, important individuals or other contributors to the organisation. We will be looking to explore themes regarding the role of members in future surveys.

Number of supporters/friends

The survey results indicate that not-for-profit organisations understand the distinction between "legal members" and "supporters/friends" of the organisation. In particular, people can support an organisation without having the right to vote at an annual general meeting.

Respondents had significantly larger numbers of supporters whom they regularly contact. Almost 30% of respondents indicated that they had 1,000 or more supporters.

As expected, the number of supporters is significantly higher than the number of organisation members.

GOVERNANCE – BOARD COMMITTEES

Board committees

The most common board committees were finance committees (91%), risk committees (65%) and governance committees (47%). Many respondents indicated that these are often merged, for example a "finance, risk and governance committee".

Other respondents disclosed a broad range of other board committees to address topics such as:

- clinical governance
- community engagement/public relations/reference groups
- fundraising
- investments
- quality and safety
- research and ethics
- strategy and mission

The survey results are consistent with our expectations and indicates that not-for-profits understand that finances are critical to organisational success.

Board members on committees

Almost all respondents (89%) indicated that a board member sits on each committee. This suggests that the use of "independent" advisory boards, committees or councils without board members is not common.

Boards should always consider whether certain committees have sufficient expertise if the committee consists of only board members. Some committees, particularly risk and finance, can be well suited to having independent members or committee chairpersons.

We would however caution board members with lesser financial skills against relying on the finance committee to do that finance work. This is especially important given recent high profile not-for-profit insolvencies such as Mowbray College collapse. The law requires all board members to act with due care, skill and diligence. Board members should personally understand how your organisation's finances work.

Number of committee meetings

From the broad range of responses, quarterly committee meetings were most common (38%). A substantial number of committees met monthly or more frequently (29%).

Frequent meetings would make sense for committees which are slightly more operational in nature (eg clinical governance committees, finance committee) but might not make sense for committees which are more strategic (eg risk).

Reallocation of board members across committees

An issue which faces many not-for-profits is who should be on a board committee and rotation.

The distribution of board members across committees can be a challenge. Committee workload should be spread evenly across board members. Individual expertise and knowledge is desirable but must be balanced against the need for upcoming board members to develop and gain experience.

With these in mind, we were disappointed to see that a majority of respondents (45%) only reallocated board members across committees on an ad-hoc basis. A smaller number review allocations annually (32%) or less regularly than three years (15%).

We encourage not-for-profit organisations to establish a system for regularly reviewing board committee arrangements.

Review of terms of reference

The survey results indicate that committee terms of reference are regularly reviewed (66%). Of those regular reviews, annual reviews were most common.

For the 34% of respondents who only review committee terms of reference on an ad-hoc basis, we encourage you to establish a system for regularly reviewing them.

GOVERNANCE – GOVERNING DOCUMENTS

Constitution reviews

Almost half of respondents (51%) indicated that their last constitution review involved a "general review".

Very few respondents indicated that they conducted a review due to legislative change. There has been significant cumulative change to the laws governing not-for-profit organisations over the last few years (particularly new charity categories, changed financial reporting, changed audit requirements, obligations to check for banned directors, new association rules, new co-operative rules).

In our experience, organisations do not realise they need to address these issues until they seek a legal review of their constitutions. For larger organisations, constitution compliance issues can put valuable tax concessions at risk. This means the constitution should be regarded as business critical.

Organisations are encouraged to keep abreast of these changes and pro-actively seek advice, rather than waiting for a general constitution update or review to pick up on these issues.

STRATEGY, OPERATIONS AND COMPLIANCE

Strategic plan

Based on the survey results, the most popular timing for updating strategic plans is every year (37%) and every three years (36%).

The remaining 27% of respondents reviewed their strategic plan on an ad-hoc, 2 yearly or 4+ yearly basis.

Care should be taken when creating or reviewing strategic plans less frequently than 3 years. Strategic plans longer than 3 years have a tendency to lose their currency and relevance.

Program reviews

About half (53%) of respondents reviewed the design and delivery of their programs annually. Another quarter (23%) reviewed programs on an ad-hoc basis. Slightly less again (19%) conducted reviews about every half year.

This suggests to us that many programs are funded, planned and implemented according to a one-year rather than multi-year cycle.

Changing compliance burden

Respondents emphatically thought that the compliance burden has increased (74%) or stayed the same (24%). Of those that thought the compliance burden has increased, two in three thought compliance was increasing "somewhat" rather than "significantly".

Based on our insight with our clients, reporting to the Australian Charities and Not-for-profits Commission has required additional reporting but produced limited streamlining of reporting obligations.

These survey results reflect many other surveys which have been conducted by government. It seems that the Federal Government's focus on reducing red tape is yet to noticeably flow through to the not-for-profit sector.

Value of external regulation

Respondents were supportive of the value derived from external regulatory requirements. Almost half (46%) thought that they "sometimes" derive value followed by "usually" (30%). The remaining respondents who answered "always" and "never" were mostly balanced.

Importance of compliance record

About half (53%) of respondents thought that compliance was always important to their funders, donors and partners. One in five (20%) thought compliance was usually important. A smaller number thought compliance was sometimes important (15%) or not important (14%).

If we correlate the responses regarding compliance "always" being important but compliance only "sometimes" deriving value, it seems that a key driver for improving compliance is to be seen as well managed by funders, donors and partners.

We speculate that this is because the "good" achieved by not-for-profits is sometimes more difficult to measure compared to financial returns of for-profit companies.

STRATEGY, OPERATIONS AND COMPLIANCE CONTINUED

Going beyond compliance

About 60% of respondents reported that they go beyond regulatory and funding requirements when they undertake reporting.

We speculate that this indicates a high level of interest and engagement by the legal members of not-for-profits as well as the broader base of supporters.

Risk management frameworks

Almost 90% of respondents stated that their organisation has a risk management framework.

This correlates strongly with the survey results from Q22 that 65% of boards have established a risk committee.

Updating the risk register

Surprisingly, the most common response was that the risk register is updated annually or less (40%). There was an even spread of responses from “monthly” through to half yearly.

Given the importance of having a risk management framework and committee, we would expect the risk register to be reviewed and updated much more frequently than annually. Organisations gain significant value by regularly reviewing their risk register even if only minimal changes are made.

Internal audit

About 70% of respondents stated that they conduct internal audits. This suggests that the use of internal audits is not as universally accepted as having a risk management framework.

We encourage not-for-profit organisations to consider conducting internal audits, particularly where they are subject to accreditation, quality requirements or onerous regulations for their core business.

Insurance reviews

Given that most insurance policies are renewed annually, it was not surprising to find that 86% of respondents reviewed their insurances annually or less frequently.

Not-for-profit organisations are reminded that insurances should be reviewed whenever any significant change is being made to its operations.

Internal audit rotation

Although 70% of respondents conduct internal audit, the survey results suggests that only 40% of respondents overall are appointing and rotating an internal audit firm. This suggests that much of the internal audit function is sourced internally.

Of those respondents who rotate their internal auditors, the most common frequency was 4 years or less (37% of the 40% who appoint an internal audit firm).

External audit

Of those who have appointed external auditors, most commonly the external audit firm was rotated every 6 years or less (40%). Frequent rotations of 3, 4 or 5 years were gradually less common.

The responses provided by participants to questions 39 and 49 were somewhat contradictory. Whilst 95% of respondents had audited accounts, only 75% of respondents indicated how their auditor was rotated.

This suggests that organisations have not properly turned their mind to regularly changing auditors.

VOLUNTEERS

Number of volunteers

We were interested to see that respondents make significant use of volunteers to pursue their not-for-profit objectives.

The most common response was that 100 or more volunteers contribute to respondent organisations (36%). The next most common response was "less than 10 volunteers" (25%), with a broad spread in between.

Volunteer managers

Most respondents (62%) had two or less paid employees responsible for managing volunteers and volunteer programs. There were significant numbers of respondents with 11 or more of such paid employees. This highlights that respondents appreciate and recognise the need to carefully manage the risks associated with using volunteers.

Volunteers attracted per year

The average number of volunteers attracted per year was 20. The median number of volunteers attracted per year was 10.

Many responses indicated that the number of volunteers recruited per year is difficult to estimate and can vary.

Volunteers from membership base

About three quarters of respondents indicated that volunteers are always, usually or sometimes members. Only one quarter (27%) indicate that the volunteer base and membership base are distinct.

There are advantages and disadvantages to having volunteers who are members. From a governance perspective, volunteers should be managed similarly to employees. Risks can arise where disgruntled volunteers use their membership powers to try and impact decisions of the board.

The survey results indicate that an organisation's membership base is often strongly connected with the volunteer base.

PROFESSIONAL SERVICES

Accounting firm size

Over half (53%) of respondents regularly use mid-tier accounting firms. There was also a spread of respondents who were more likely to use smaller firms rather than top tiers.

As Pitcher Partner clients were invited to respond to the survey, this may skew the statistics.

Accounting spend

Many respondents (36%) indicated that they spend between $20,000 and $100,000 last year. This was closely followed by a spend of between $5,000 and $20,000 last year (32%).

About 23% of respondents spent less than $5,000 per year. This correlates with the 30% or so of small and medium sized organisations who responded to the survey.

Auditing services

There has been ongoing debate about whether an organisation's accountant should also be its appointed external auditor.

In practice, four fifths (80%) of respondents indicate that they do ask their usual accounting firm to provide auditing services.

Legal firm size

Two fifths (42%) of respondents regularly use mid-tier law firms. There was also a spread of respondents who were more likely to use top tier firms rather than small tiers.

As Russell Kennedy clients were invited to respond to the survey, this may skew the statistics.

Legal firm spending

Based on the survey results, not-for-profit organisations tend to spend more on accounting services than legal services.

Two fifths (40%) of respondents spent $0 to $5,000 last year. Some significant numbers of respondents spent $20,000 to $100,000 last year (30%) and $5,000 to $20,000 last year (24%).

Audited accounts

95% of respondents had audited accounts.

Since the survey canvassed both small, medium and large not-for-profits, this indicates that smaller organisations still consider it good governance to have their accounts audited.

Professional surveys

A wide variety of responses were received. Typical surveys which were considered useful by not-for-profits included:

- Staff satisfaction surveys
- Salary and remuneration surveys
- Compliance surveys
- Board self assessment
- Consumer satisfaction surveys

Commissioning surveys and using their results can play an important role in driving change and organisational improvement.

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