

Informed Giving

Ensuring Charities Inform Donors

by Gary Johns

Australia has a large investment in altruism. There are over 50,000 charities in Australia, supported by millions of donors to the tune of \$3 billion every year. Australian donors do not know if their investment in altruism is wise. They do not have the information to judge whether their donations are put to best use. Measures of performance are available for investors in the corporate sector, and for voters in the government sector. They should also be available for donors who support the charity sector.

As an acknowledgement of the growth and importance of charities, the sector has sought to expand the definition of charity in terms of both purposes and the means by which they are achieved. It has also sought regulatory reform, including the establishment of a Charities Commission. To date, the Australian Government has accepted an expanded range of charitable purposes, but has not clarified what constitutes acceptable charitable activities. It does not appear willing to engage in regulatory reform, including the establishment of a regulator for the sector.

A key principle of charity reform is whether charities inform their donors sufficiently well of their activities. This *Backgrounder* explores a model for charity disclosure and regulation aimed at achieving an informed donor market. It argues that a better-informed market will provide a powerful tool for scrutiny, as well as a guide to acceptable purposes and acceptable activities. It proposes that the Australian Government should assist the sector to achieve the standard of disclosure suggested, and establish a dedicated regulator modelled on the Australian Securities and Investments Commission.

WHAT IS A CHARITY?

Charities are major institutions in Australia. There are over 50,000 charities¹ supported by millions of donors² to the tune of over \$3 billion annually.³ They operate for a wide array of purposes and in any number of ways. For example, The Australian Conservation Foundation, Friends of the Earth, Greenpeace, and The Wilderness Society are 'environmental charities'. This may surprise those who understand charities to be predominantly working to help the sick and the poor. Moreover, some charities are very active in government. For instance, the Queensland Conservation Council boasts 60 representatives sitting as environmental consultants on committees throughout the State. Even those that help the sick and the poor want to do it differently—they want to overcome inequality. Russell Rollason of Anglicare asked, 'Is the role of charities and churches simply to apply band aids to the victims of our competitive society or should charities actively contribute to a fairer, more just Australia?'⁴ Indeed, the way charities go about their business can raise doubts as to the purpose of their charitable activity. A very astute question by the Chair of the Senate Economics Legislation Committee on this issue, 'is the purpose [of the charity] attenuated by the mode of advocacy?' elicited the following response by the Commissioner of Taxation, 'It may well be'.⁵

There is an assumption in the public support of charities that a donor understands the purpose of the charity. When the charity's methods are direct—giving aid to the poor, planting trees, and writing letters to foreign governments on behalf of political prisoners—the task of informing the donor is not great, because the purpose is unambiguous. As the methods and definition of charities have widened, the assumption of donor knowledge may not hold. Consider these examples:

- A welfare charity no longer gives aid directly to the poor, but wants to use the tax system to achieve equality. It is debatable whether lobbying government in the pursuit of an egalitarian ideology—through more generous unemployment benefits or a more progressive tax system—constitutes charity for the poor.

- An environmental charity that lobbies government to tax hydrocarbons may not be performing a public benefit. It is just as likely to be pursuing an environmental ideology based on assumptions of resource depletion.
- It is arguable that a human rights charity that lobbies for the International Criminal Court is pursuing little more than an anti-nation-state ideology.

In these ways, and myriad others, lobbying by charities almost invariably means that public resources should be devoted to their favourite cause. Charity work is no longer unambiguously good, or for the public benefit. It may be altruistic, but increasingly it is embedded in a political framework that seeks to use public power for system change. These methods are unambiguously political in nature. Arguably, it is at odds with the donating public's expectations of the charities.

These debates would not matter so much if charity status did not carry tax-assisted privileges, and if donors were well aware of the work of charities. As charities are publicly assisted, and as it is unlikely that donors are fully aware of their activities, there is a need to scrutinize the activities of charities. This already takes place in two respects. Charities are subject to State laws governing their fundraising, and they are registered under the Taxation Act and therefore have to prove their purpose—for example, to be publicly beneficial. For the purposes of the donor making an informed decision, this regulation is wholly uninformative.

THE DONOR AS REGULATOR

There are two concepts of charities' behaviour that may be useful in understanding the need to inform the donor. First, charities raise their funds by acting as agents for donors in pursuit of the donor's wishes. Second, charity advocates seek to raise funds from donors to further the cause most dear to the heart of the advocate. Donors need sufficient information to decide if the charity is an agent or an advocate or, if both, in what proportion. The donor has the power to withdraw support if dissatisfied with the charity's performance. It is a power similar to that of the share-

holder who can sell his or her part in an enterprise if dissatisfied with its performance. Such power is best used when based on good information—for example, evidence of the fulfilment of the charity's mission. While an essential element of disclosure is the charity's mission statement, so also is evidence of the mission's completion. Did the charity do what it promised? Did it fulfil its mission in the most efficient way? Measures of efficiency and effectiveness would aid the donor in deciding how, or indeed whether, to spend their money.

From the donors' point of view, there is a gaping hole in the scrutiny of charities. The present scrutiny does not provide an answer to the question: are charities any good at what they do? In the stockmarket, there are those who analyse corporations and advise investors. There is a market in information. In the donor market, there is no incentive to analyse the performance of charities because the 'investment' by the donor is usually small and insufficient to warrant the cost of advice. In the case of large philanthropic donors who may be willing to pay for information, the notion of a 'return' on the donation has either been eschewed, or subsumed by the emotional response to the cause. They do not appear to want to know the answers to the crucial questions of performance, or if they do, they gather the material for their own use, and are under no obligation to inform other donors. Furthermore, these donors are in much the same position with respect to charities as are institutional investors to public companies. Many philanthropic donors have representatives on the boards of the beneficiaries of their gifts, so they are less likely to enforce a set of disclosures that would allow other donors to make a judgement about the performance of their charities.

There are organizations that keep an eye on charity performance. For example, Givewell⁶ gathers material on the fundraising costs of charities and other relevant material. The difficulty is that it can only list information that is available, most of which is incomplete or not comparable. An example of a Website where many charities' activities can be viewed is Donations.com.au. The service 'streamlines the fundraising activities' of the donor by depositing directly into the bank account of the selected organization.⁷ There are,

however, no data whatsoever to make a judgement about the efficacy of the organization. The decision to donate is based on the emotion of the cause. The donor's trust in the charity is assumed. The Australian Consumers' Association attempted a survey of charities in 2002, seeking to answer the question: 'Which ones are worthy of your generosity?'⁸ Its *CHOICE* magazine abandoned its attempt to rate the worth of charities, concluding, 'Unfortunately, charities don't have to comply with any uniform standard for presenting their financial reports. That means the way they break down income and expenditure can vary, and when income and expenditure don't exactly match it may be because the charity keeps a small amount in reserves for security. Because of reporting differences, it's difficult to exactly compare one charity against another.'⁹

An attempt to understand the extent to which a donor may use published information on performance to decide to support a charity has been made by the Charity Commission for England and Wales. Using a recent survey of public attitudes in the UK, the results show that:

- the public considers the principles of transparency and accountability to be important;
- information about the areas of activity on which charities have spent their money was considered the most important;
- 60 per cent of respondents said that the ability to compare important information between charities would affect their decision about which charity to support.¹⁰

The regulation of charities in Australia is, in general, the responsibility of State Governments. The terms and requirements of the various Acts vary quite significantly, as does the way they are interpreted. For example, in NSW and Victoria, the Acts relating to charities require them to disclose their fundraising income and expenditure. Givewell's research, however, has shown that the rate of adherence to those requirements—though better in NSW—is quite variable in both States.¹¹ Similarly, a study by the Institute of Chartered Accountants in Australia (ICAA) analysed the financial and annual reports of 22 major not-for-profits (for our purposes, charities) in matters such as the disclosure of fundraising costs. Using the NSW *Charitable Fundraising Act* 1991 as its measure, it found that only four of the reports

included data to comply with the requirements of this Act. The ICAA report also found that only three of the 14 not-for-profits (NFPs) 'who would have incurred a deficit without a government grant', included in their financial report disclosure of this crucial information.¹² Although meeting the requirements imposed by Federal and State legislation in general terms, the ICAA review found that the reports of most NFP organizations did not satisfy the needs of two of their key stakeholder groups, the donor and the funding provider.¹³

More disconcerting is evidence of reluctance in the sector to disclose relevant facts about their activities. A recent survey of regulatory issues in the not-for-profit sector found that, 'a startling 9% of respondents thought that no information should be made available to the public, while only 39% agreed with fully audited accounts being disclosed (as is currently required by the Corporations Act), and just over half thought summary financial information should be enough.'¹⁴ The Australian Taxation Office has argued that 'if more information on concessionally taxed bodies was made publicly available ... the public and organizations could more easily bring non-compliant behaviour to the ATO's attention, or other relevant agency'.¹⁵ The issue is: what kind of information? In an increasingly politicized sector, keeping donors well informed may require the public disclosure by charities to donors of three things—the efficiency of the charity, the nature of the work undertaken in the name of the charity, and the achievements of the charity. Donors may have little voice in the charity, but, armed with good information, they would have the power of spending their donor dollar elsewhere.

MODEST REFORM SO FAR

A number of major studies of, and inquiries into, the charity sector in the last decade have recognized the important work of the sector, but also its variable legal form and difficult-to-define boundaries. An inquiry undertaken in 1995 by the Industry Commission, *Charitable Organisations in Australia*,¹⁶ provided some very good data and sound recommendations as to how the sector may be better regulated. A second inquiry, the Char-

ities Definition Inquiry 2001, sought to define a charity better. Its recommendations are contained in *Report of the Inquiry into the Definition of Charities and Related Organisations*.¹⁷ In submissions to the Charities Definition Inquiry, the sector sought to expand the definition of charity work,¹⁸ and reap the benefits of an 'independent' regulator.¹⁹ The Industry Commission recommendations have been largely ignored. Instead, a lesser raft of changes arising from the Charities Definition Inquiry has produced modest change.

The Australian Government introduced the *Charities Bill 2003*²⁰ in an attempt to define charitable activities better. The Bill was withdrawn, however, after advice from the Board of Taxation that it 'failed to achieve the level of clarity and certainty'²¹ that was intended. Having failed in its attempt to introduce a legislative definition of a 'charity', the Government decided to continue to rely on the common-law meaning. The only change was to extend the definition 'to include non-profit child care available to the public, self-help groups with open and non-discriminatory membership, and closed or contemplative religious orders that offer prayerful intervention to the public.'²²

In addition, legislation was tabled in Parliament on 19 February 2004 requiring charities, public benevolent institutions and health promotion charities to be endorsed by the Tax Commissioner in order to access relevant taxation concessions.²³ The amendments extended the endorsement processes currently undertaken by the ATO to all taxation concessions to which charities, public benevolent institution and health promotion charities are entitled.²⁴ The changes updated the list of charities, but the same method of self-assessment and hands-off regulation continue.²⁵ In other words, the entire focus of reform has been in taxation compliance, with little regard to informing the donor of the activities and performance of charities.

A STANDARD OF DISCLOSURE

The major parts of the reform agenda—the need for a sound basis in regulation and a much better set of indicators of performance—remain to be addressed. In these regards, the Industry Com-

mission Report recommendations of 1995 provide a guide, as do two further substantial studies. The Institute of Chartered Accountants 2003 review of financial and annual reports of 20 major non-profits in Australia, which recommended a specific financial reporting framework and standard, and the University of Melbourne Centre for Corporate Law and Securities Regulation (CCLSR) 2004 study, which recommended the need for uniform regulation and comparable standards of disclosure.

The Industry Commission argued that donations to charities deducted from a donors' income for tax assessment purposes, 'can lever greater funds ... from the public than are forgone in tax revenue. So it can be an efficient, though indirect, means for the Commonwealth government to fund [charities] ... It also allows the public to decide which organizations should receive support from the government.'²⁶ The missing ingredient was data that would enable donors to compare the fundraising activities of charities over time and between organizations. The Commission recommended that financial information requirements about fundraising should be met 'through a sector-specific accounting standard and form of incorporation.'²⁷ It made the point that most States/Territories lacked the systems necessary to collect the information and make it available to the public in a useable form.

The Industry Commission identified the following problems with the system:

- lack of consistent data collection processes;
- lack of public access to information; and
- lack of standardization of financial reporting and other information.²⁸

The main issue is to define the type and amount of data that would satisfy the donor and other relevant stakeholders. A survey of NFPs by the CCLSR showed that respondents claimed that reporting obligations were excessive. The study concluded, however, that this was not a reason to reduce disclosure, but rather it made the case to ensure appropriate disclosure. '[W]hat is required to be disclosed and by whom',²⁹ was to be more accurately assessed, so that, for example, there would be greater disclosure on some issues such as description of activities, directors' remuneration, and related party transactions. The CCLSR study recommended that a minimum

disclosure standard for all NFP organizations, regardless of size, should include:

- a summary or concise financial statement, based on a specific accounting standard;
- a description of the activities, and how they meet the objects of the organization; and
- disclosure of directors' remuneration.

For larger organizations, the CCLSR study recommended that there should be audited accounts and disclosure of the amount (and possibly sources) of public funding. For small organizations (those with an annual income or total annual expenditure of less than \$100,000), the Australian Securities and Investments Commission (ASIC), or a certain percentage of members of the organization, should have the power to require any organization to be audited.³⁰ In addition, the reporting obligations under various Acts—including the Corporations Act 2001 (Cth) and various State Fundraising and Collection Acts—should be unified. Multiple filings should be avoided and low-cost, online searching facilities should be available to maximize transparency. Further, reporting obligations should constitute a 'one-stop' report that would aim to satisfy the needs of various bodies.³¹

One of the most sensitive elements of a disclosure regime is the fundraising ratio. There are two essential issues. The first is that there is currently no requirement under the Corporations Act to disclose marketing expenditure compared with fundraising receipts information and there is considerable inconsistency between the Fundraising and Collection Acts of the States and Territories. Attempts to compare fundraising costs are inherently difficult, as they may vary, for example, with the popularity of the cause. Revenue from fundraising, gifts, memberships, dues and association fees, and the sale of goods and services needs to be disclosed. This is in addition to disclosure of moneys spent on administration, advertising, promotion, and the like. It is difficult to determine the costs that should be allocated to fundraising, and there are problems such as the apportionment of overheads and campaign costs over the period of fundraising benefit, but standardized accounting methods are achievable. The CCLSR recommended further consideration of the matter by the Australian Accounting Standards Board.³²

A second element of the fundraising ratio is whether there should be legislative controls on the costs of fundraising. The US and Canadian disclosure regimes for charities specify upper limits on the costs of fundraising (in addition to upper limits on expenditure on advocacy). The *Fundraising Appeals Act* in Victoria, for example, ‘does not specify a percentage of funds raised ... that must always be distributed to the beneficiaries’. The approach is based ‘on allowing retention of a reasonable proportion of the funds raised.’ The current review of the Act is considering whether the present system is effective in ensuring that ‘excessive amounts of proceeds are not retained for administrative costs or whether the Act should specify a percentage of funds that must be distributed to beneficiaries.’³³ The difficulty with such ‘standards’ is not only that they are arbitrary, but also there are no objective criteria for determining the appropriate limit. Limits may also encourage organizations to underestimate their expenses. Legislation would restrict the ability of high-cost organizations to conduct fundraising when there may be legitimate reasons for high fundraising costs for like charities. The Industry Commission considered that legislative controls on the ‘acceptable’ ratio of costs to fundraising were not desirable.³⁴ The best policy with respect to standards of performance in fundraising is to allow the donors to make an informed decision.

Subject to further work on definitions of fundraising costs, the Institute of Chartered Accountants in Australia (ICAA) has established a standard of financial reporting that should make an excellent template for any regulator. It recommends that a General Purpose Financial Report (GPFR) should be available in most circumstances.³⁵ The ICAA argued that the following accounting concepts should form the framework of financial reporting for NFPs. Foremost is that the characteristics of the stakeholders determine the information needs. For example, ‘the greater the spread of ownership/membership and the greater the extent of separation between management and the owners/members or others with an economic interest in the entity, the more likely it will be that there will exist users dependent on GPFR as a basis for making and evaluating resource allocation

decisions.’ Further, ‘the greater the economic or political importance of an entity, the more likely it is that there will exist users dependent on GPFR.’³⁶ Finally, ‘If ... NFPs raise funds from the general public by way of appeal or membership and seek support by way of grants from governments and philanthropic organizations, the NFPs’ Financial Reports might be used to make decisions as to where donations or descriptions are directed or whether grants are made.’ Moreover, where the users are not in a position ‘to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs’, then the ICAA believed that a GPFR should be available to assist the donor, subscriber or grantor’s decision.³⁷

The ICAA strongly recommended NFPs develop their reports to enlighten the donor in two dimensions, both of which involve Key Performance Indicators (KPIs):

- Process KPIs—those which measure the effectiveness of activities such as fundraising and administration; and
- Impact KPIs—those which measure the effectiveness of the delivery aspects of the NFP—for example, the number of people assisted or treated, the proportion of people suffering from an affliction assisted by the organization.³⁸

The ICAA also recommended that NFPs report on their three core business segments: generating funds, administering funds and spending funds. This reporting enables comparison of the performance of similar NFPs and meets the needs of donors and grantors. The *pro forma* report is set out in the Appendix: Checklist for Improving Not-For-Profit Reporting. It does not suggest that all NFPs must comply in every respect, but the intention is clear: it wants NFPs to be able to make straightforward statements such as: ‘what we are trying to do’, ‘how we are going about it’, and ‘what we have achieved during the year’. These statements, combined with the use of various Australian Accounting Standards, are likely to provide a standard of information sufficient for a well-informed donor market. The regulator, in conjunction with the sector, should stimulate any further work on standards.

REGULATOR OR ADVOCATE: A CHARITIES COMMISSION OR THE ASIC?

Although the accountants can agree on the standard of reporting, the question of who is best to regulate may be more difficult to resolve. The Industry Commission considered several strategies for improving the accountability of charities to donors and the availability of information to the public:

- the establishment of a body responsible for supervision and monitoring charities;
- charities to be incorporated as public companies under the Corporations Law.
- the Australian Government should provide resources to fund the development of an accounting standard specific to the sector.³⁹

The Commission argued that the Australian Government could require those organizations that wish to raise tax-deductible donations to incorporate in the prescribed way. Linking tax deductibility and this form of incorporation would ensure that donors (and the community in general) would be able to access information about the finances and operations of the charities they support.⁴⁰ The State regulators would presumably bring their regulation for fundraising into line with the Commonwealth's. The CCLSR study reinforced the Commission's themes, recommending a single Commonwealth regulatory regime, with ASIC becoming the new regulator (at least until any new regulator is introduced), and the establishment of a specialist unit within ASIC. It also argued that a new independent NFP advisory body should be established to meet this need. A range of support services could be provided at low or no cost—for example, auditing, financial and taxation advice, legal advice, training for Board members, dispute resolution and mediation for stakeholders.

Speaking as Chair of the National Roundtable of Nonprofit Organisations,⁴¹ Robert Fitzgerald argued that 'there is a particular need for information to be disclosed in ways that answer the questions that those interested in nonprofit organisations are likely to have'.⁴²

The sector appears to support a uniform standard of regulation, and their advocacy for this is

long-held and to be applauded. The sector, or at least that part of the industry represented by the Nonprofit Roundtable, however, sees the issue in wider political terms. For example, it recalls the Definitions of Charities Inquiry recommendation for the creation of an 'independent' commission, such as the Charity Commission in the UK. The body would have responsibility for looking at the overall regulatory regime of charities throughout Australia, and take certain responsibilities from the Australian Taxation Office.⁴³ The sector's keenness to remove responsibility for charities from the ATO stems from its view that, 'the gate-keeping role [of] the Australian Taxation Office ... means that revenue concerns overshadow broader public interest concerns in defining charitable purposes.'⁴⁴

The sector is concerned that the tax system is being used to control or inhibit the activities or voice of nonprofit organizations.

If the community overall doesn't like the advocacy of a particular organisation, it won't support it ... and in the end the marketplace will have its effect. We must always guard against regulatory regimes and contracted requirements that seek to limit the ability of any organisation to have a go and have a say.⁴⁵

There is some support for Robert Fitzgerald's concerns in a recent survey of NGOs' attitudes to the Australian Government. The report concluded that, 'There has been a serious deterioration in relations between the Federal Government and NGOs to the point where many believe they have been "frozen out" and fear they will have their funding withdrawn. The concerns of the NGO sector were heightened by the proposal by Treasurer Peter Costello to disqualify a charity that engages in advocacy that is other than ancillary or incidental.'⁴⁶

The sector is well aware of the realpolitik of charity registration. A charity that may have been on the books for many years, but whose aims and methods (not to mention its competence) may presently be almost unrecognizable, has the advantage of incumbency. Governments are very reluctant to be seen to police charities, and to cause one to lose charity status would be a bold move indeed. The sector knows this, and

the few that have been removed from the list in recent years had all but ceased to exist anyway. The ‘marketplace will have its effect’—but only if it is well informed. The sector seems to want a sympathetic regulator as a counterweight to government. It claims a ‘right to special treatment by the community through the tax system’ and a ‘right to speak out and to influence public policy’.⁴⁷ The right to special treatment, however, cannot be taken for granted. The price must be a disclosure regime that satisfies the donor, which includes the government. The assertion of the right to special treatment also assumes that there is no ongoing discussion of the legitimacy of charities’ purposes and practices. The fact is that the right to speak out and to influence public policy is nowhere under threat, because this ‘right’ is not granted by the government. It is a long-established practice secured by a generous public and buttressed by a very vigorous free press.

The sector cannot expect a sympathetic regulator, though it should expect a well-resourced regulator that understands its needs, especially if the sector is faced with the demands of new disclosure standards. In this regard, the Charity Commission of England and Wales has some valuable lessons to teach Australia. The Commission is working towards a standard of disclosure for the sector, and it is assisting the sector and allowing it time to reach an acceptable standard. The Commission’s recent survey of 200 large UK charities⁴⁸ assessed the extent to which the charities had gone beyond minimum requirements to provide information that accounted fully and transparently for their performance. The Commissioner concluded, ‘Our evidence is that the general standard of performance against the transparency and accountability framework is not satisfactory. Whilst there are some very good examples, too many charities in our study did not meet basic requirements.’⁴⁹ The Commission is working towards a standard of disclosure called ‘Statement of Recommended Practice’, which is to be implemented by March 2005.⁵⁰

**THE SECTOR SEEMS
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The Charity Commission appears to have moved the sector in the right direction, but it is clear that there is still some way to go. A similar reform in Australia would take the resources and impetus for reform that comes with a dedicated regulator. The extra-curricular agenda of the sector, however, needs to be resisted. When the sector cries foul over the possible denial of the freedom to lobby, it is likely suggesting that

it would prefer a regulator which, as the price of disclosure, becomes an industry advocate. These matters should not come anywhere near the brief of the regulator; it should not be an advocate, or a friend to the sector. Its role is to protect the taxpayers’ investment in the sector, and the donors’ right to know, including the government, which is the

agent of other donors at large. The Charity Commission in the UK operates in the context of the Labour Government’s ‘compact’ with the community sector. Labour used this device to win the hearts and minds of the community sector at the same time as it handed a great deal of responsibility to it for programmes paid for by government. The role of ‘partner with government’ was taken up with alacrity by the sector. The difficulty is that ‘partner’ implies something more than a mere contractual partner. For example, the community sector can compete with private-sector providers to deliver services and at the same time have a considerable influence over the nature of the services. The ‘compact’ allows the community sector to act as both advocate and provider, using public funds in both roles.

The roles of advocate and provider are best separated, to the benefit of the government, the sector, and the recipients of the programmes. The Australian Labor Party has begun to use the language of the ‘compact’ to win the hearts and minds of the sector, but it falls into the same trap of confusing the two roles of the sector, and the means by which each role should be managed. An Australian charities regulator must apply the agreed standards of disclosure and assist the sector to achieve the standard, but no

more than that. The political side—the relationship between the sector and the government, should be handled as it would with any other political lobby.

The Charity Commission of the UK and Wales is not a model that should be replicated in Australia. Although it brings knowledge and experience to the job of a regulator, it also comes with the baggage of the sector as a long-standing supplicant to government. For example, four Commissioners manage the Charity Commission, three of whom, including the Chief Commissioner, come from the charity sector.⁵¹ In any context, but especially in the context of the UK Government's policy of a compact with the sector, the selection of Commissioners hopelessly confuses the lines of accountability and fouls the separation required to protect the public's interest in the sector. The sector's notion of the public interest is, of course, entirely different from that of the sector's claim to represent the 'public interest.' A Commission should be well informed by the sector, as is the ATO or ASIC, but it should not be a creature of the sector. Indeed, it is questionable whether the resources that will be required by the sector to reach the standards of disclosure recommended should be made available through the Commission. It would be best to have a programme of institutional support administered by, for example, the Department of Family and Community Services, and leave the Commission as a regulator without the complication of 'assisting' the sector.

CONCLUSION

The Australian Government should, as a condition of registration for charity status, impose a national standard of transparency and reporting for charities and establish a new regulator independent of the sector. Resources should be found to assist the sector to attain the required standard, and these resources should not be accessed through the regulator. The charity sector does not need a friend as a regulator. It is a sector with many friends in government and many supporters. It will do it no good to have a regulator acting as an advocate on its behalf as well.

Regulation does not imply a loss of freedom to speak, nor does it preclude debate about the proper use of charity funds—for example, for advocacy. The idea of a powerful disclosure regime is to place much of the work of the scrutiny of charities into the hands of the donor. The sector will not be defenceless against the regulator, it is well organized, and has strong links to its donor base and to the political parties. It is purely a speculation, but it seems that while some in the sector are ready for reform, some, who are close to the government, have convinced it to refrain from such reform. Perhaps the disclosure of the remuneration of the CEOs of the larger charities is a matter too sensitive for those friends to want disclosed. On the other hand, it may be the enemies of the government who will cry foul at the prospect of a disclosure regime. Either way, in the next Parliament, it will be interesting to observe if the sector is sufficiently united to promote reform.

ABOUT THE AUTHOR

Dr Gary Johns is a Senior Fellow with the Institute of Public Affairs and is Head of the IPA's Non-Government Organisation Project. This project studies NGO transparency and accountability, particularly in their relations with government and the corporate sector in the formation of public policy. The IPA's position is that there should be a well-informed market, and an open competition among interest groups for public policy. In April 2004, he completed (with IPA colleague John Roskam) a research project for the Australian Government, *The Protocol: Managing Relations with NGOs*, a Report to the Prime Minister's Community Business Partnership. In March 2004, he addressed Members of the European Parliament in Brussels on these issues.

Appendix: Checklist for Improving Not-For-Profit Reporting⁵²

An overview of our reporting	Yes	No	Not Applicable
Do we properly disclose situations where we are economically dependent on grants to enable us to carry out our activities?			

Part 1 – What we are trying to do		Yes	No	Not Applicable
1.1	In the past we have included our Mission Statement in our Annual report. Does it provide the reader of our Annual Report with a clear understanding of what we are trying to do?			
1.2	Does our Annual Report include a clear statement of the objectives of our organisation? What is the need we are serving and how are we going about it?			

Part 2 – How we are going about it		Yes	No	Not Applicable
Does the Annual Report:				
2.1	Include a clear statement as to how we go about obtaining the funds we need to achieve our objectives?			
2.2	Provide a clear description of the activities we undertake to achieve our objectives?			
2.3	Clearly explain how we work with other organisations to achieve our objectives? For example, do we explain:			
	<ul style="list-style-type: none"> where we are dependent upon other organisations for funding 			
	<ul style="list-style-type: none"> where our policies are set by or aligned with those of other organisations 			
	<ul style="list-style-type: none"> where we provide funds to other organisations so they can carry out their activities 			
2.4	Disclose the results of each of the segments in which we operate? That is, have we considered including disclosures to comply with Accounting Standards, AASB 1005, Segment Reporting?			
2.5	Dissect our revenue, expenses, results, assets and liabilities to enable us to report the following segments:			
	<ul style="list-style-type: none"> generating funds – this may be through appeals, commercial activities or bequests 			
	<ul style="list-style-type: none"> administering funds – the management and administration activities of the NFP 			
	<ul style="list-style-type: none"> the expending of funds on the purposes for which the NFP was established. 			

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Part 3—What we have achieved during the year		Yes	No	Not Applicable
Does the Annual Report:				
3.9	Include Process KPIs that measure the effectiveness of our activities? For example:			
	<ul style="list-style-type: none"> costs of fundraising as a percentage of gross income from fundraising 			
	<ul style="list-style-type: none"> net surplus from fundraising as a percentage of gross income from fundraising 			
	<ul style="list-style-type: none"> cost of the services we provide as a percentage of total costs incurred 			
	<ul style="list-style-type: none"> cost of services provided as a percentage of total funds received 			
	<ul style="list-style-type: none"> appropriate measures for our commercial activities such as gross profit, return on sales and return on assets employed 			
	<ul style="list-style-type: none"> the number of hours contributed by our volunteers 			
	<ul style="list-style-type: none"> the number of staff we employ and the activities they are engaged in 			
3.10	Include Impact KPIs that measure the effectiveness of the 'delivery' aspects of our activities? For example:			
	<ul style="list-style-type: none"> the number of meals provided 			
	<ul style="list-style-type: none"> the number of people assisted or treated 			
	<ul style="list-style-type: none"> the proportion of people suffering from an affliction we have assisted 			
	<ul style="list-style-type: none"> the success of research funded by grants we have provided 			
	<ul style="list-style-type: none"> the awareness of our organization within the community we serve 			
	<ul style="list-style-type: none"> the changes to government policy that can be directly attributed to our activities 			
	<ul style="list-style-type: none"> the countries in which our services are provided 			
	<ul style="list-style-type: none"> the number of volunteers we have placed 			

Part 5—Understanding our organizational structure and activities		Yes	No	Not Applicable
Does the Annual Report explain:				
5.1	The legal form of our organization?			
5.2	The composition of our Board or Governing Committee, including their qualifications and experience?			
5.3	How the members of our Board or Governing Committee are appointed to that position?			
5.4	The specific roles of the members of our Board or Governing Committee?			
5.6	How decisions are made at meetings of the Board or Committee?			
5.10	Our investment policies and how they are enacted?			

Source: Institute of Chartered Accountants Australia.

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