ENFP COMMUNITY

NOT FOR PROFIT LEADER'S REPORT

FINANCIAL MANAGEMENT
NOVEMBER 2022

CONTENTS

Financial management is at the heart of any business.

INTRODUCTION

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Financial Management can be simply defined as the process of planning, organising, controlling and monitoring financial resources with a view to achieving the organisation's goals and objectives.

Whilst companies are often focused on generating profits for the owners or shareholders, those in the not for profit sector exist to provide benefits to members of the community and are funded with this in mind.

Although profitability is not the core purpose of a not for profit, it is important that they are sustainable, properly capitalised and funded. Not for profit organisations need to ensure they have adequate cash flow to support their operations over the short and long term and contribute to society by achieving their goals. Appropriate good practice financial management will ensure that there are adequate resources to meet their objectives, remain solvent and continue to support the community.

As not for profit organisations are funded through many sources, including government funds, grants, donations, fundraising or receipts from members, it is vital that these funds are being appropriately used to meet the strategic goal of the organisation.

In addition, there will always be a wider interest in assessing how not for profits have spent their money.

Current environment

When we surveyed not for profit (NFP) leaders last year, we were still in the midst of the pandemic and most states and territories in Australia were still in a type of Covid lockdown.

Twelve months on, whilst lockdowns are in our rear-vision mirror, there are certainly a large number of other challenges businesses are facing now – rising interest rates, rising inflation, employee shortages and the potential of a global recession.

Some sectors and industries are finding the bounce back challenging. These factors will only add further pressure to the not for profit sector – with cost of living pressures pushing individuals to rely on charities for support and the potential for a loss in revenue for charities.

On the positive side, the October 2022 Federal Budget handed down by Treasurer Jim Chalmers has earmarked additional funding (albeit by 2025-26) for the Pharmaceutical Benefits Scheme, aged-care sector, community housing and the health of First Nations Australians.

The survey

2022 marks our second annual NFP Leaders Survey on Financial Management. During September and October 2022, we surveyed more than 80 NFP leaders on financial management, the results of which are presented in this report.

The survey respondents breakdown was:

- **57%** **Traditional charity**
- **25%** **Association/membership organisation/club**
- **10%** **Social enterprise**
- **8%** **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 15% to Australian Securities and Investments Commission (ASIC).

Of those that report to the ACNC only 11% said their classifications had changed following the increase in ACNC thresholds.

The main findings of the survey include:

- The current economic environment was affecting 59% of organisation's planned cash reserve levels
- More than 53% were looking to raise the prices for their products/services in the next two years
- 37% are looking to outsource some of their finance function
- 24% were looking to grow the headcount of their finance team in the next 12 months
- 62% had seen an increase in revenue over the past two years
- In the last 12 months 86% of respondents had seen an increase in wages - with the average increase being 6%
- More than 81% 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.

"The **current** economic environment was affecting 59% of organisation's planned cash reserve levels"

MANAGING FINANCES

Not for profit organisations have a unique remit – they 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 ACNC Australian Charities Report published in June 2022 shows that across the charity sector, just under half of the sectors revenue is currently sourced outside of the Government (49.6%), with around one third (32.5%) being generated by providing goods or services.

Our survey asked how your 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)*	17%	22%	16%	9%	9%	27%
Donations & bequests	21%	49%	5%	7%	7%	11%
Revenue from goods and services *(incl membership fees, corporate sponsorship & subscription fees)*	14%	39%	13%	9%	4%	20%
Revenue from investments *(incl interest, dividends)*	19%	70%	8%	4%	0%	0%

When we compare these figures to the data obtained in our 2021 survey, we can see a shift in those relying on 80-100% government funding move from 16% to 27% in 2022 - a huge increase. The last 12 months has seen many organisations look to government sources and grants to assist with their funding as other sources have seen a decline – particularly with revenue from investments. In 2021, 2% of those surveyed obtained 80-100% of their revenue from investments, this year there were none.

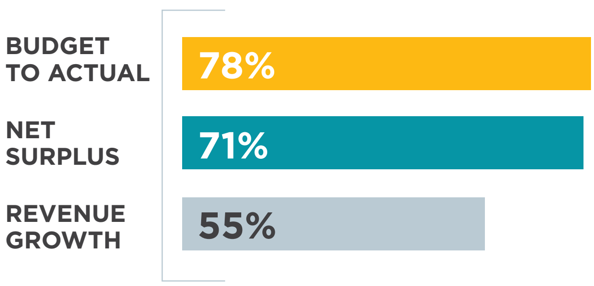
NFPs need to diversify their income streams and take steps to reduce their overall reliance on external funding. They need to think about the commercial and social value of their products and services in a global as well as local context. If charities want to attract significant philanthropic support, they should be helping wealthy Australians to structure their philanthropy and show them how much they can get from giving.

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 2022 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):



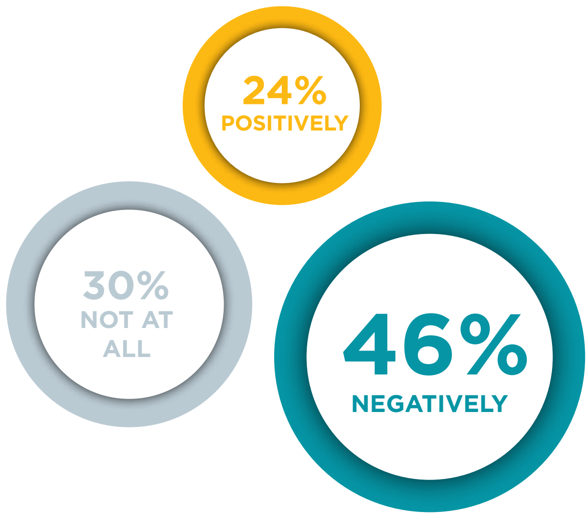
It is not surprising that these reflected the results obtained in the 2021 survey.

MANAGING FINANCES (CONT.)

THE IMPACT OF COVID – LOOKING BACK OVER THE PAST TWO YEARS

With Covid impacting society over the past two and a half years, we asked if Covid had impacted your financial performance positively, negatively or not at all. A large proportion of 70% said that it had affected either positively or negatively.

Has Covid affected your financial performance?



We saw similar themes come through as to how Covid had affected financial performance from our 2021 survey.

Many highlighted a decrease in revenue from a reduction in fundraising revenue, cancellation of key events & conferences whilst seeing an increased demand for their products and/or services.

It was interesting to note that many respondents highlighted labour costs and labour shortages as having an impact in the last 12 months which was not mentioned in our 2021 results.

When asked if revenue had grown over the last two years, 62% of respondents said that it had. This may have been the result of government support, initiatives and funding though, so it will be interesting to see how the next financial year pans out for organisations.

Has your revenue grown in the last two years?

62% YES

38% NO

We asked if you were budgeting a surplus over the next 12 months and it was interesting to note that even in the current economic environment 48% were budgeting a surplus.

Are you budgeting a surplus over the next 12 months?

48% YES

52% NO

"Organisations need to review their business models closely and assess the strength of their organisation's balance sheet and ensuring there are no 'lazy assets'."

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, more than 62% of respondents said no.

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

38% YES

62% NO

Interestingly though, when we asked whether you were looking at reviewing prices over the next 12 months 53% said yes.

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

53% YES

47% NO

Raising prices may seem an uncomfortable concept for those in the not for profit sector however, it may be necessary for a number or reasons including: increase 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 organisations' 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 your competitors - 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? What are your competitors doing? What is your unique selling proposition compared to your competitors?

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.

After two years of government support to assist in getting through the pandemic, can forecasting give you a good answer? As the saying goes "Past performance is not a reliable indicator of future performance." This is when you need to look at financial modelling to help provide you with valuable insights.

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

We asked if you were looking to diversify your products and services in the next two years, 59% of respondents said they were. This aligns with the findings of our NFP Leaders Survey on Strategic Planning undertaken earlier in 2022 where 70% stated they were looking to provide new services to existing services and 55% were looking to expand into new geographies.

Diversification may seem like a simple concept for some organisations, however before committing resources to product or service diversification, you need to carry out research to ensure that you understand the needs of your market and the level of risk you are prepared to take. Igor Ansoff's Product/Market matrix below helps to show this.

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

59% YES

41% NO

Diversification is one of the **FOUR MAIN GROWTH STRATEGIES** illustrated by Igor Ansoff's Product/Market Matrix:

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 put a significant risk on an organisation. Therefore, you should only pursue a diversification strategy when the market demonstrates slow or stagnant future opportunities for growth.

MANAGING FINANCES (CONT.)

JOINT VENTURE

When asked whether you were looking to enter a new joint venture in the next two years, 25% of respondents said yes. It's interesting to note that earlier in 2022 when we asked similar questions in our Strategic Planning survey 64% of respondents were considering a new partnership and 17% were considering a merger in the next two years.

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.

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 reserve levels we again saw similar findings to our 2021 survey, with 66% of respondents having at least six months' worth of cash reserves.

ANSWER CHOICES	2022 RESPONSES
1-3 months	11%
3-6 months	23%
6-12 months	29%
12 months+	37%

When asked if **COVID-19** had impacted your **planned** cash level reserves we saw that 70% were either affected positively or not at all.

It is interesting to see that when asked if the **current** economic environment was affecting cash reserves, over 59% of respondents said yes.

Is the current economic environment affecting your cash reserves?

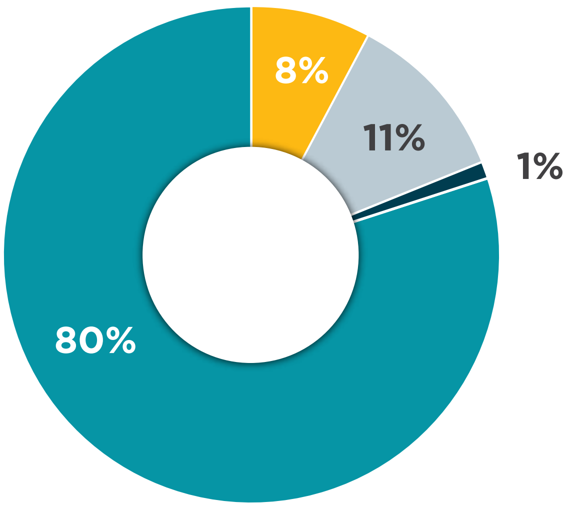
59% YES

41% NO

We asked if your organisation was looking to take on more debt over the next 12 months, a large 81% said no, with 11% saying yes to provide working capital and 8% looking to expand products/services.

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

- Yes – looking to expand our products/services
- Yes – need assistance to fund working capital
- Yes – other
- No



RESOURCING

With Australian states and territories ending their lockdowns in late 2021, it was interesting to see that when asked if your finance team was working remotely, we had the same response as in our 2021 – 87% responded yes.

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

87% YES

13% NO

As we get further away from lockdowns there also appears to be a continued focus on flexibility and greater work life balance. The expected 9 to 5 work life has not resettled for a number of workers and efficiency is under pressure in some industries exacerbating and staff shortage issues.

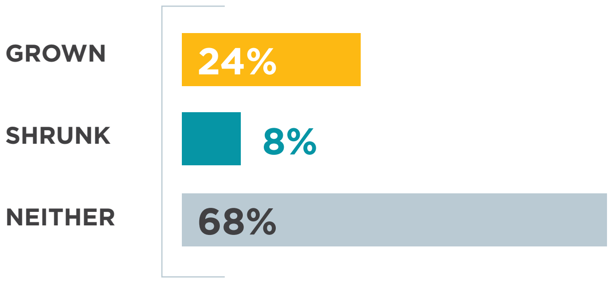
The way we work looks to have changed forever. Working from home is no longer considered a benefit. You only need to visit any of the central business districts across Australia during the working week to see the change.

We asked how many people were in your finance team with the majority - 54% 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 25% 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+
25%	54%	14%	7%

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



It was interesting to note that 24% of respondents said their finance team had grown in the last two years, and 24% 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?

24% YES

76% NO

Unfortunately, for those looking to grow their head count, 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 3.5% (at the end of September 2022), recruiting skilled employees remains a challenge.

On top of this, at the Australian Jobs and Skills Summit held in September 2022, it was highlighted that record peak demand for accountants had led to 9,000 vacancies. Looking forward, it is also concerning that enrolments in accounting degrees sunk by almost 3,000 students in 2021.

RESOURCING (CONT.)

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 survey show that this has indeed affected those in the NFP sector in Australia.

More than 52% of our 2022 survey respondents said that they 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?

52% YES

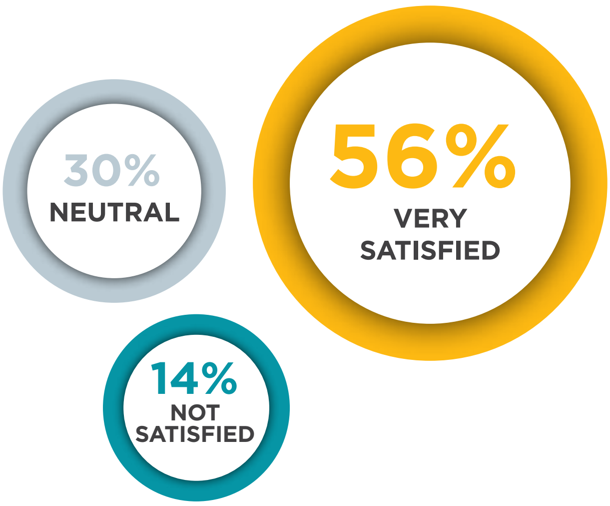
48% NO

We asked, if the change in personnel had affected the ability for the team to produce reports in a timely manner', just over 43% 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 changes that we saw from our 2021 report.

In 2022, 56% said they were very satisfied, whereas in 2021 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 69% responding with yes. In our 2021 survey those who responded yes to this question was 86%.

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

69% YES

31% NO

We can therefore make an educated assumption that the high turnover within finance teams has made an impact on the quality of reporting and also the change in segregation of duties.

When asked if you had reviewed your finance processes within the last 12 months, we saw almost identical responses to our 2021 survey with 85% saying yes, this year and 86% responding yes last year.

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

85% YES

15% NO

It may be that each of these reviews is looking at different aspects. In 2020/21 we were still in the grip of Covid whereas this year with high turnover levels in finance teams, new employees may be bringing new ideas or ways of thinking which has changed processes.

In 2022 we have seen a shift in the makeup of the finance team. In 2021, 71% of respondents said their finance team was in-house with 22% hybrid and 7% external. This year 82% said their team was in-house with 11% hybrid and 7% external.

RESOURCING (CONT.)

When asked if you'd considered outsourcing any part of your finance process, 37% said yes, compared to 29% in 2021.

Have you considered outsourcing any part of your finance process?

37% YES

63% NO

When we delved further into this it was no surprise to see payroll at the top of the list as it was in 2021 with 31% of respondents. The Australian employment law is probably the most complex in the world with multiple awards applying within even the smallest of organisations. Issues with historical payroll compliance can lead to huge fines, as we have seen with a number of large not for profit organisations over the last two years. We will further touch this in the payroll section of this report.

Bookkeeping and financial statement preparation are two other areas organisations are looking to outsource with 25% and 24% of respondents respectively looking at these.

31% PAYROLL

25% BOOKKEEPING

24% FINANCIAL STATEMENT PREPARATION

"48% said staff retention was the biggest risk within the finance team."

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.

Key risks with finance teams

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

It is not surprising that when asked what the biggest risk with your finance team was, 48% of NFP leaders surveyed said staff retention and 28% specifically mentioned key person loss. When comparing this to the findings in 2021 we again had 48% of NFP leaders saying staff retention, but no one had specifically mentioned key person loss. This may be reflective of the changes organisations have seen in the last 12 months.

Key person risk when your business relies too heavily on one (or a small number) of individuals who provide large value to your organisation. They could work in any department, but it is a particular risk in your finance team. What happens if they suddenly hand in their notice, are ill or want to take a longer holiday? What can organisations do to manage their key-person risk, or better yet not expose themselves to it in the first place?

RESOURCING (CONT.)

Prevention and preparation is key. Conduct a thorough workforce analysis to determine who your key individuals are and what grade of risk they present, and then establish a business continuity strategy. 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.

Other key changes from last year's survey were the mentioning of lack of documented processes and loss of corporate knowledge which accounted for 23% of survey respondents.

Highlighting the challenges of the last two years, it was interesting that 5% of respondents said 'burnout'.

Managing turnover

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.

What can employers do to keep employees? Unfortunately, there is no magic answer!

What we do know however, is that a cookie cutter approach will no longer work - what motivates one may not motivate another.

This is reflected by a recent study by RMIT and Deloitte that found most staff would choose extra training over free lunches at work and one in four would prefer $1000 a year to spend on training to a $50-a-week pay rise.

At the heart of the challenge is communication. You need to be having open and honest conversations with your team. Understand their motivators and what they want from their job and your organisation.

These conversations may not always be positive, however, it's better to know in advance that someone is looking for a new challenge and wants to move on rather than finding out when they resign.

Often when organisations are recruiting, they may be desperate to fill the role as they only have a limited time to get a new person in and hope to have some type of handover, so they can make costly decisions. Employing the wrong person could not only be a waste of time and money, but also had a cultural cost. The cultural debt created from a mis-hire can't be physically equated, but it's disruptive to the organisation as a whole and can have knock-on effect, damaging the organisational culture.

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 finance team has become excessive, it may be time to consider these measures:

- Uncover the root causes for departure/s – and address any common themes
- 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
- Strengthen bond with employees – happy employees feel valued, challenged and connected to their employer.

PAYROLL

For many businesses, payroll is the biggest expense. Especially for those providing services to their customers - such as not for profit organisations.

When asked if your wages increased in the last 12 months – a resounding 86% of respondents said yes.

Have your wages increased in the last 12 months?

86% YES

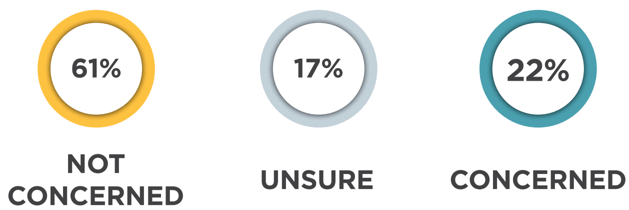
14% NO

When asked by what percentage, the average across all organisations came back at 6% - which sits just on the National Consumer Price Index (CPI) rate of 6.1% as at the June 2022 quarter.

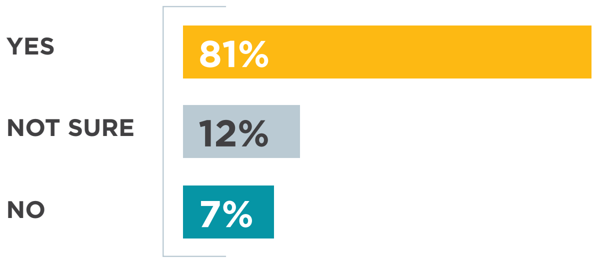
Australian employment law is probably the most complex in the world with multiple awards applying within even the smallest of organisations. And issues with payroll can cause huge fines as we have seen with a number of large not for profit organisations over the last two years.

We asked how concerned you were about the historical application/interpretation of awards and the risk of underpayment of staff, with 22% saying concerned and 61% not concerned. It is interesting to note when asked the same question last year, 84% said they were not concerned.

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



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



81% of respondents have indicated that they are confident that their systems are up to date and are compliant with all employee entitlements – slightly down on the 90% that responded yes in the 2021 survey.

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

60% YES

40% NO

PAYROLL (CONT.)

Again, we saw a decrease in the number of respondents who had had their position descriptions reviewed by a professional adviser from 48% in 2021 to 31% in 2022.

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

31% YES

69% NO

Interestingly, Yellow Canary (payroll verification specialists) sees that employers, even with the most sophisticated systems, still have areas of non-compliance. Often, even the most minor issue of non-compliance can result in hundreds of thousands, if not millions, of dollars in unpaid entitlements.

Compliance in community and not for profit organisations can easily be overlooked or considered only when an issue arises.

Many factors can contribute to an employer achieving compliance. Everything from human error, lack of industrial knowledge, employee self-claim systems and classification issues all increase the risk that compliance issues will surface.

Currently, the Social and Community Services industry is particularly vulnerable to non-compliance issues. The NDIS Workforce Plan estimates that more than 350,000 workers are expected to be working in the industry by 2024, a staggering 48% increase from this time six years ago. With a rapidly growing workforce record-keeping systems (such as time & attendance) are no longer fit for purpose and a lack of knowledge of employee entitlements can present challenges. To add to this, the new Federal Government has an appetite for big changes in Australian workplace laws that are suspected to change at a pace that has not been seen for some 12 years.

Behold—the perfect storm for non-compliance.

These issues of non-compliance are highlighted in each of every issue of the HLB Mann Judd not for profit quarterly publication *For Impact*.

Payroll compliance should be a habit, not an irregular task. Employers can have greater confidence that they are reaching payroll compliance by:

- Having regular audits by an independent third party.
- Always seeking to ask, “are my current systems fit for purpose”.
- Holding regular education sessions with employees and managers about employee entitlements.
- Having a trusted legal advisor who can provide timely advice around changes to employment laws.

As the age-old saying goes, “you can’t mark your own homework”. Ultimately, it does not matter how sophisticated an organisation’s payroll systems are; compliance can only be achieved when all of the above factors are working in harmony.

Do you have a spare $150,000+ to deal with any historical payroll compliance issues?

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, leaders can plan wisely for current and future needs, which will help them to prioritise their time, budget, workforce and programs.

It is no surprise then, when asked if you'd investigated any technologies that could assist your finance processes, 87% said yes.

Have you investigated any technologies that could assist your finance processes?

87% YES

13% NO

This is all good and well, but what is the right technology for your organisation?

When we delved further into this and asked what you had investigated, 95% said cloud-based software.

If yes, which technologies have you investigated?

ANSWER CHOICES	RESPONSES
Cloud based software	95%
Optical Character Recognition (OCR) technology	17%
Robotic Process Automation (RPA)	12%
Other (please specify)	3%

Technology is ever evolving and it's hard to keep up with all the latest and greatest. How do you know what would work best for your organisation?

There is also a fear of the unknown – could technology affect team morale? Will employees feel as if they are being replaced? And of course, the big question – how much will it all cost?

We asked if you had started to automate your finance processes. It was pleasing to see 66% of respondents have started.

Have you started to automate your current finance processes?

66% YES

34% NO

To what extent are your current finance processes manual?

When asked to what extent are your current finance processes manual, where respondents were required to select one option – the response was in the 25-50% category.

ANSWER CHOICES	RESPONSES
0-25%	15%
25% - 50%	37%
50% - 75%	29%
75% -100%	19%

This shows us that although the majority of respondents have been investigating cloud-based software it may not be able to cut through and help with automating processes.

Organisations may be put off by the 'perceived' investment required – both financially and resourcing. Looking at technology such as Robotic Process Automation, we would expect this could significantly assist with automating more processes.

TECHNOLOGY (CONT.)

How can processes and automation assist with employee risk?

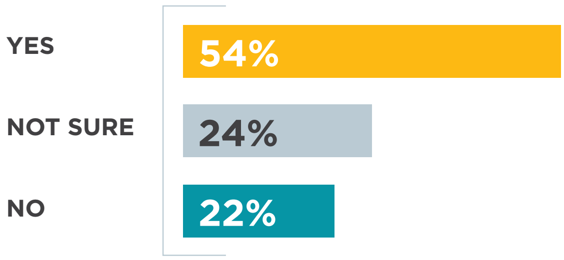
There is an increase in the importance of ensuring you document all processes; this can help to ensure you are not losing critical business information when staff leave. It can be quite a tedious process in the beginning; however, it is good governance. A recent report released by the Governance Institute, *Driving the digital revolution: A guide for boards* found that 21 per cent of organisations fail to have digital changes underway, and more than half of the respondents have few, if any, directors with core technology skills.

We are finding that implementing automation, where possible, can assist with freeing up staff to perform other tasks.

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 saw similar responses to our 2021 survey when we asked whether your current finance systems and processes would be able to support the organisation through future growth, with 54% responding yes.

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



We asked people to rank the following technologies in order of importance to your organisation (with 1 being the most important and 6 the least). It is clear from the table below that the top two priorities are integrated systems with 69% of respondents ranking it a 1 or 2, and data security with 57% ranking it a priority 1 or 2.

These findings are not surprising following the recent Optus and Medibank data breaches. These have shown the importance of ensuring the information you hold for your customers is secure and you have suitable systems to protect that information.

There are many things that organisations can do to help prevent a data breach, such as updating software regularly to ensure it is the latest version and training employees. This will help employees understand how a data breach can occur and what they need to do, for example how to spot a phishing attack. You should also ensure you have the right anti-virus software and a strong password policy.

	1	2	3	4	5	6
Automated financial reporting	14%	22%	32%	16%	6%	10%
Integrated systems	38%	31%	15%	7%	6%	3%
Manage multiple funding sources (donors, government funding, sponsorship etc)	9%	12%	15%	22%	27%	15%
Automatic tracking and reporting of outcome metrics	1%	9%	26%	35%	25%	4%
Automated consolidation of multiple entities	3%	4%	4%	7%	19%	63%
Data security	36%	22%	9%	13%	16%	4%

RISK

Notwithstanding the management and protection of financial resources must be a concern for all not for profit organisations— irrespective of size. Managing financial assets whether they be money or goods/services is crucial to all organisations, but more critical when dealing with donations or grant funding for important public works/support provided by the NFP industry.

When asked if your organisation had an instance of fraud, only 10% said yes, which was reduced from 23% last year.

Have you had any instance of fraud?

10% YES

90% NO

When asked how susceptible your organisation was to risk where 1 was not at all and 5 extremely susceptible, the majority of respondents (81%) 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, 71% said they were confident with 19% unsure and 10% not confident. There was an improvement to the 2021 survey results where 65% were confident, 21% unsure and 13% not confident.

That also may reflect the unintended benefit of improved systems driven by remote working during the last 12 months.

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

71% CONFIDENT

19% UNSURE

10% 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 undeclared revenue, overpayment of wages and unauthorised expenses.

High employee turnover is a key risk to an organisation. As outlined earlier, 52% 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.

On more general governance issues, when we asked how confident that your organisation is complying with all appropriate laws and regulations, 84% of respondents confirmed they were confident (compared to 86% in 2021).

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

84% CONFIDENT

10% UNSURE

6% NOT CONFIDENT

RISK (CONT.)

RENEWED FOCUS POST PANDEMIC

The Australian Institute of Company Directors 2021 'Not for Profit Governance and Performance Study' commented on the change from their 2020 report where Directors were now starting to move more away from the operational issues and back to their focus on governance particularly with an increase in economic stress.

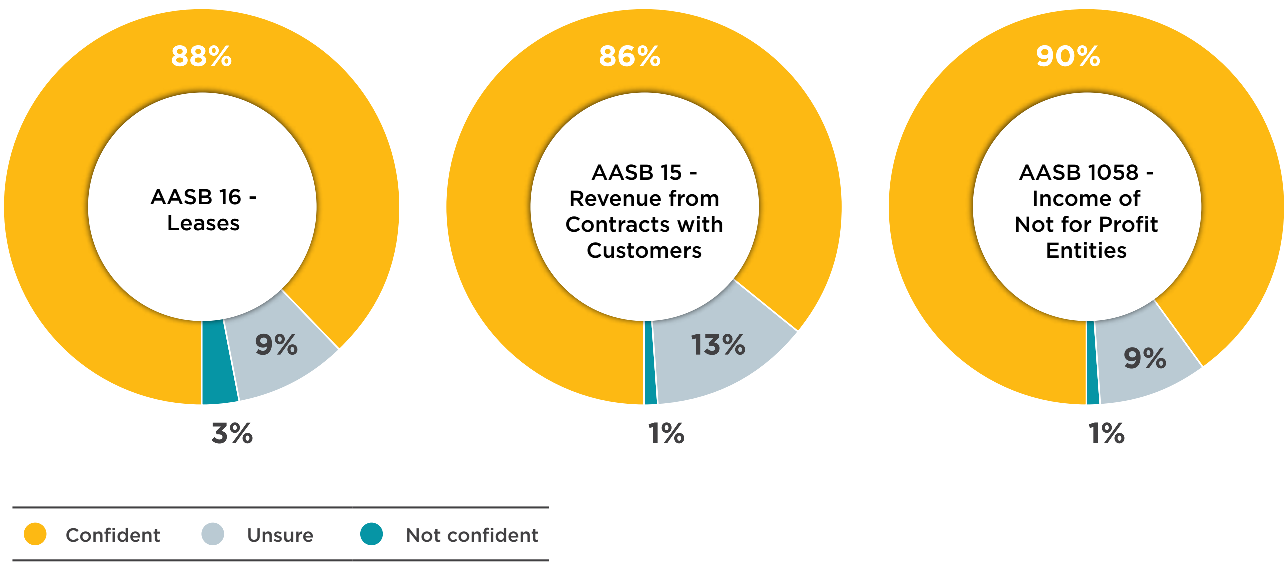
However, the fundamentals of governance remain high on director's agenda, and risk management frameworks were widely recognised as effectively shielding NFPs throughout the pandemic.

Pleasingly, there appears to have been improvement in the areas assessed from the 2021 results, that correlates with the expected increased focus on governance with the pandemic now in the rear-vision mirror.

AUSTRALIAN ACCOUNTING STANDARDS

Compliance with Accounting Standards is a legal requirement in relation the disclosure of financial information. It is therefore pleasing to see that for each of the three Standards we surveyed on more than 85% of respondents were confident that they were complying with the standards. In our 2021 survey confidence was sitting at between 75-81%. So, it appears there is higher confidence this year that appears to reflect the increased focus on and understanding of requirements.

How satisfied are you with your ongoing compliance on...?



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.

MEET THE 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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