ENFP COMMUNITY

NOT FOR PROFIT LEADER'S REPORT

Financial Management | September 2024

EXECUTIVE SUMMARY

Effective financial management is essential for not for profits to maximise their impact, ensure sustainability, and maintain public trust. By implementing strong financial practices, not for profits can demonstrate accountability and integrity, reassuring supporters that their investments are truly making a positive impact.

THE SURVEY

During July and August 2024, we surveyed more than 80 not for profit leaders on financial management, with the findings presented in this report.

Of those surveyed 52% were charities, 19% member, clubs or peak body organisations, 9% religious organisations, 8% school or training providers, 5% social enterprises and 5% foundations with 2% 'other'.

When we asked about annual revenue, 79% reported having more than $3 million, 17% between $500,000 and $3 million and the remaining 4% less than $500,000.

However, when asked about the number of employees, the responses were more varied. The largest responders were from organisations with 11-50 employees (29%) and 101- 500 employees (28%). The remaining responses were 17% with 1-10 employees, 15% with 51-100 and 11% with more than 501 employees.

While 45% of respondents maintain a predominantly on-site workforce (0-25% remote), a significant portion (55%) have adopted hybrid or remote-first models, with 21% operating at a 50/50 split and 34% having at least 75% of employees working remotely.

In presenting the results of this survey, we note responses are influenced by the perspective of the respondent being part of the management team or a board member, as these groups have different responsibilities and focuses.

KEY FINDINGS:

- A significant 68% of respondents reported that their financial performance has been negatively impacted by macroeconomic factors such as cost of living.
- Rising operational costs are the biggest financial challenge for 85% of organisations.
- The current economic environment was negatively affecting 56% of organisations' planned cash reserves.
- Nearly 60% of respondents experienced turnover within their finance team in the past 12 months.
- 43% were looking to outsource some of their finance process, with payroll being the top response.
- In the last 12 months, 90% had an increase in wages, with the average increase being between 3 – 6%.
- Data security, automation and integration were ranked as the most important finance related technologies.
- Budget constraints and limited resources are the primary barriers to technology investment.
- Loss of major funding is the number one financial risk to 59% of respondents.

We wish to thank all respondents for participating and contributing to the survey.

We trust you find our report and the analysis to be valuable to your organisation.

Aidan Smith
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Head of Not for Profit

Kim Kelloway
Head of Clients & Markets
Head of the Exclusive Not for Profit Community

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MANAGING FINANCES

In today's challenging economy, effective financial management is vital for not for profits to sustain their operations and achieve their mission.

FUNDING

Before managing finances effectively, not for profits need to first ensure they have secured funding.

We asked how the organisation was funded with the responses displayed in the table below:

Funding source	Percentage of respondents
Government funding	66%
Investment income	61%
Individual donations	56%
Corporate sponsorships	39%
Fundraising events	39%
Private foundation grants	37%
Bequests	37%
Program service fees	36%
Community grants	32%
In-kind donations	31%
Volunteer services	27%
Partnerships and collaborations	25%
Membership fees	24%
Merchandise sales	20%
Conferences and events	17%
Service contracts	17%
Other	15%
Sponsorship from local businesses	10%
Endowments	7%
Social enterprise activities	5%

Overall, the data reveals a diverse funding landscape for not for profits. Government funding and investment income play a dominant role, while individual donations and corporate support are also crucial.

The presence of various other funding sources helps to contribute to a more resilient financial position for organisations.

This supports the findings of our Not for Profit Leaders Report on Strategic Planning earlier in the year, where 77% of respondents indicated that 'developing or diversifying funding sources' was in their strategic plan - the highest of all inclusions).

Diversifying funding is not unique to the not for profit sector – it's a strategy for many businesses. For example, McDonald's is one of the world's largest real estate company masquerading as a restaurant chain, Costco generates 80% of its profit from membership fees and the Marriott hotel chain makes most of their money by licensing their name, operating system and loyalty program to others.

Diversifying funding sources through targeted donor campaigns, corporate partnerships, and new income generating activities can help mitigate competition for funding. Organisations looking to improve fundraising efforts may also consider leveraging digital platforms and more effective grant writing.

Organisations may consider engaging the services of organisations like Strategic Grants, which work with not for profit organisations to identify grants, write applications, design and monitor programs and evaluation frameworks, and strategic planning for grants management success.

MANAGING FINANCES (CONT.)

MEASURING FINANCIAL PERFORMANCE

Measuring financial performance is crucial for informed decision-making, performance evaluation, risk management, goal setting, donor confidence, community accountability and benchmarking.

We asked how you measure financial performance with the results shown in the table below.

Q How do you measure financial performance?

Budget to actual	83%
Revenue growth	69%
Net surplus	64%
Client/member growth or retention rate	37%
Customer satisfaction	36%
Cost of fundraising / fundraising income ratio	32%
Volunteer services	27%
Partnerships and collaborations	25%
Asset growth / working capital ratio	24%
Membership fees	24%
Gross margin	22%
Merchandise sales	20%
Conferences and events	17%
Service contracts	17%
Other	15%
Revenue per client	10%
Sponsorship from local businesses	10%
Endowments	7%
Social enterprise activities	5%

The findings are very similar to our previous years' reports. Overall, the data suggests that organisations prioritise financial performance metrics, but there is a growing awareness of the value of non-financial indicators. Our 2024 Not for Profit Leaders Report on Strategic Planning, released earlier this year, delves further into some of the non-financial metrics.

CURRENT ECONOMY

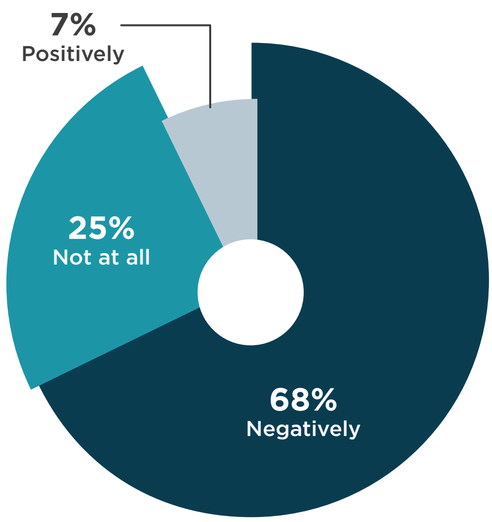
Over the past 12 months, Australia's economy has been affected by several key factors. Inflation rates have fluctuated, impacting the cost of living and purchasing power.

The Reserve Bank of Australia has adjusted interest rates to balance economic growth and inflation, influencing borrowing costs and consumer spending.

Employment trends have varied, affecting consumer confidence and spending patterns. The housing market has also seen unprecedented shifts in property prices and demand, affecting consumer wealth.

We asked how macroeconomic factors had affected the organisation's financial performance with the responses displayed in the following graph.

Q In thinking about some of the key impacts the sector has weathered over the last 12 months including the cost of living crisis, has your organisation's financial performance been affected?



These findings highlight the challenges faced by the sector due to the economic pressures of the past year. suggest that the cost of living crisis has created substantial financial difficulties for most organisations within the sector.

MANAGING FINANCES (CONT.)

We then asked for the respondents to provide more detail with free text.

The responses could be broadly grouped into four key areas:

- **Financial strain** - The majority of organisations reported negative financial effects, indicating challenges in managing costs and generating revenue.
- **Revenue challenges** - Many organisations experienced decreased income, likely due to reduced consumer spending and economic downturn.
- **Cost pressures** - Rising operational costs, including wages, utilities, and supplies, have significantly impacted profit margins.
- **Resilience** - A smaller proportion of organisations reported no significant financial impact, suggesting a degree of resilience to economic challenges.

Some comments to come out of this question were:

"Government funding has not kept pace with the Award wage or the superannuation guarantee increases."

"We have seen significant income growth through philanthropic and digital channels."

"Operating expenses have increased considerably."

"NDIS funding came short of inflation pressures."

"Losing community grants we have previously received have impacted us."

"While fundraising has been harder, we've still achieved 20% growth year on year. This has been due to diversifying our income streams so we're not so reliant as much on individual donations."

Interestingly, whilst most organisations have been negatively affected over the past 12 months, the survey results show that many organisations are successfully navigating funding challenges, with 63% reporting revenue growth over the last two years. These findings are similar to our 2022 and 2023 reports, where 62% and 64% respectively, reported an increase in revenue.

Q Has your revenue grown in the last two years?

Y 63%

N 37%

We asked if the organisation was budgeting a surplus over the next 12 months, with 49% responding 'yes'. These findings were consistent with our 2022 and 2023 reports, where 48% and 45% budgeted a surplus.

Q Are you budgeting a surplus over the next 12 months?

Y 49%

N 51%

These findings indicate that many organisations are experiencing positive financial trends. A significant portion have seen revenue growth, and nearly half are planning for a surplus. This suggests a climate of financial stability within the surveyed group.

MANAGING FINANCES (CONT.)

PRICING

Regularly reviewing costs and pricing strategies is essential for not for profit organisations to maximise the impact of limited resources, ensure financial sustainability, and optimise the allocation of funds towards achieving the organisation's mission.

We asked whether respondents had raised their prices for products or services over the past two years, with 44% indicating that they had.

Q Have you raised your prices for products/services over the past two years?

Y 44% **N** 56%

The data shows a stabilisation in the percentage of organisations increasing prices, from 38% in 2022 to 45% in 2023. The percentage of respondents raising prices has remained relatively consistent between 2023 and the current period, suggesting that pricing strategies may be stabilising.

When asked whether organisations were looking at increasing prices in the next two years just under half responded yes.

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

Y 49% **N** 51%

Not for profit organisations face a number of constraints, when considering price increases. Unlike for profit businesses, their primary goal isn't profit maximisation but fulfilling a social mission.

Increasing prices can alienate clients or beneficiaries who rely on their services, potentially reducing access to vital programs.

Additionally, many not for profits rely on government funding or donations, which can be impacted by public perception if prices are raised. This delicate balance between financial sustainability and social impact makes price increases a complex decision.

Engaging a financial adviser to conduct modelling and analysis before any price increases can provide invaluable insights for organisations.

By constructing detailed financial models, advisers can assess the potential impact of various scenarios, helping organisations make informed decisions.

Financial modelling can also assist in securing funding by demonstrating the organisation's financial viability and potential return on investment, thereby enhancing overall financial management and strategic planning.

CURRENT FINANCIAL CHALLENGES

As highlighted earlier in this report, 68% of respondents had been affected negatively by the current economic climate.

We wanted to delve further into this and understand more about the biggest financial challenges organisations are currently facing.

Q What are the biggest financial challenges your organisation currently faces?

Rising operational costs	85%
Technology upgrade costs	53%
Competition for funding	46%
Uncertain government funding	44%
Economic uncertainty	37%
High overhead costs	37%
Fundraising shortfalls	29%
Regulatory changes	29%
Declining donor base	27%
Maintaining reserves	27%
Limited funding diversity	24%
Program expansion costs	24%
Cash flow issues	22%
Grant compliance	20%
Dependence on a few major donors	17%
Volunteer retention and management costs	17%
Financial planning	14%
Inadequate financial reporting systems	14%
Unforeseen expenses	12%
Delayed funding disbursements	5%
Insufficient endowment or investment income	5%
Other	5%
Lack of strategic financial planning	3%
Lack of financial expertise	2%

MANAGING FINANCES (CONT.)

Not surprisingly the highest response with 85% of participants was rising operational costs.

We can also see that over half of the organisations (53%) are struggling with the costs associated with upgrading technology or dealing with increasing cybersecurity risks.

Nearly half of the organisations face intense competition for funding (46%) and uncertain government funding (44%), reflecting a competitive and unstable financial environment.

Challenges in securing funding from traditional sources are also evident with 29% of organisations experiencing fundraising shortfalls and 27% indicating a declining donor base.

Other areas that not for profits are facing challenges include ongoing regulatory and compliance costs, high overheads, volunteer retention as well as management costs and dependence on a few donors.

BALANCING GOALS WITH SUSTAINABILITY

Whilst not for profits exist for the greater good of the community, they still must maintain financial viability. All funds must be allocated in accordance with the organisation's mission whilst still being able to spend on necessities such as employees, technology and operational costs.

Balancing these competing priorities requires careful financial planning, strategic budgeting and efficient resource management.

Ensuring that the mission-driven activities are adequately funded while maintaining the infrastructure needed for sustainability is crucial.

This balance enables not for profits to continue their valuable work in the community while remaining financially sound.

We asked, 'how does your organisation balance its mission-driven goals with financial sustainability?'

Q How does your organisation balance its mission-driven goals with financial sustainability?

Strategic planning	**83%**
Cost management	**69%**
Efficiency improvements	**69%**
Innovation and technology adaption	**49%**
Staff training and development	**49%**
Diversified funding sources	**47%**
Revenue generating activities	**44%**
Advocacy and policy work	**44%**
Collaboration with partners	**39%**
Impact measurement	**36%**
Long-term investment strategies	**36%**
Volunteer engagement	**25%**
Member programs	**15%**
Other	**5%**

Not for profit organisations can ensure their mission-driven goals remain financially viable by:

- Diversifying income streams
- Demonstrating the impact measurement to attract funding
- Collaboration with other organisations to share resources
- Improving donor acquisition and retention strategies
- Optimising operations and reducing unnecessary expenses
- Creating a financial safety net
- Aligning financial goals with the organisations mission.

MANAGING FINANCES (CONT.)

CASH RESERVES

Cash reserves are crucial for organisations to maintain financial stability, weather economic downturns, and fund unexpected expenses, ensuring the continued delivery of essential programs and services.

We asked what level of cash reserves organisations have, with the results displayed in the table below:

Q What level of cash reserves for expenses do you currently have?

12 months+	38%
6-12 months	25%
3-6 months	21%
1-3 months	16%

These findings are consistent with our previous surveys, indicating that organisations are continuing to build cash reserves despite facing ongoing financial challenges.

However, when asked if the current economic climate was affecting cash reserves, 56% responded 'negatively,' an increase on the previous year where 49% responded negatively.

Q Is the current economic environment affecting your planned cash reserves?

56%	Negatively
34%	Not at all
10%	Positively

When asked if their organisation was looking to take on more debt over the next 12 months, 93% responded 'no', up from 80% in 2022 and 87% in 2023.

Q Are you looking to take on more debt in the next 12 months?

93%	No
5%	Yes – other
2%	Yes – looking to expand our products/services

The current economic challenges are driving not for profit leaders to exercise greater caution in financial decisions, including the reluctance to take on any additional debt.

Concerns about revenue stability, rising interest rates and uncertain economic conditions have prompted many organisations to prioritise debt reduction and financial prudence.

KEY TAKEAWAYS

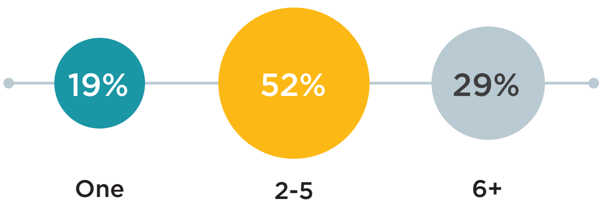
- Organisations are funded through a wide variety of sources; however, leaders must continue to focus on diversification of funding.
- Regular audits of expenses are needed to identify and eliminate non-essential costs.
- Collaboration with other organisations to share resources such as office space, administrative services, or technology is becoming increasingly important.
- Upgrading outdated technology should be prioritised.
- Organisations need to build and maintain financial reserves to cushion against unexpected cost increases.
- Leaders must revisit the organisation's strategic plan to align activities with available resources and current economic conditions.
- Engage a financial adviser to conduct pricing modelling and analysis.
- With rising operational costs, reviewing and increasing prices will be necessary for many organisations.

FINANCE TEAM

A strong finance team is essential for the success of a not for profit organisation. They play a crucial role in ensuring financial stability, managing resources effectively, and providing accurate financial information to support decision-making. They also provide valuable insights into fundraising opportunities and cost-saving measures.

We asked how many people were in the organisation's finance team, with the majority – 52% stating they had between 2-5 people.

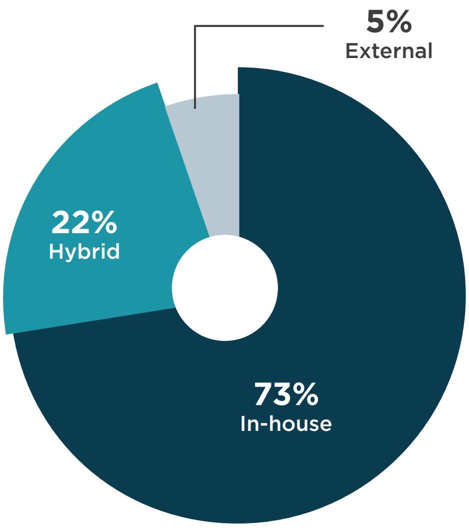
Q How many people in your finance team?



It's worth noting that these employees might not all work full-time. Smaller organisations typically have smaller finance teams, with 19% reporting only one person in their department.

We asked whether your finance team was in-house or external with the majority – 73% being in-house, with 22% hybrid and 5% external.

Q Is your finance team...



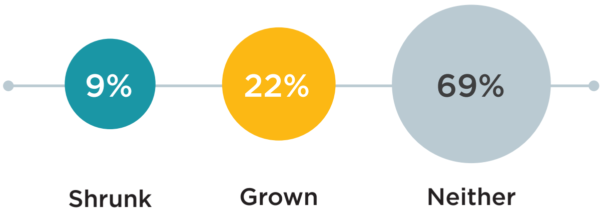
Having an in-house finance team offers deep organisational knowledge and control over financial processes; however it can also be costly and resource intensive.

Outsourcing finance functions offers flexibility and cost benefits, but it's important to consider potential risks to data security and control.

A hybrid approach combines in-house expertise with outsourced services, offering a balance of control, cost-effectiveness and access to specialised skills. Each model presents unique benefits and challenges, with the optimal choice depending on an organisation's size, financial resources and specific needs.

Similar to previous years' surveys, when asked if the finance team had changed size, the majority of respondents, 69%, said it hadn't.

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



Only 12% of respondents indicated they were looking to grow their finance team over the next 12 months.

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

FINANCE TEAM (CONT.)

We asked whether you had a change in personnel in the finance team over the past 12 months – with 59% responding 'yes'.

Q: Have you had a change in personnel in your finance team in the past 12 months?

Y 59%

N 41%

These findings were again similar to our previous Financial Management reports whether 56% had seen a change in their finance team.

A 59% turnover rate in a finance team indicates a significant level of instability and disruption within the department. This high turnover can have several negative consequences, including:

- Loss of valuable financial expertise and experience.
- Increased costs - recruiting, hiring, and training new staff is time-consuming and expensive.
- Decreased productivity as new staff take time to become familiar with the systems and processes.
- Disruption of ongoing financial projects and initiatives.
- A stressful and demoralising work environment for remaining staff.

Addressing the root causes of this high turnover rate is crucial for the financial health and stability of organisations.

Following this, we asked for those who had a change in personnel, had this affected the team's ability to produce reports in a timely manner. Only 15% of respondents said it had, which was a significant decrease from our 2023 survey findings (41%).

Q: If yes, has this affected the ability for the team to produce reports in a timely manner?

Y 15%

N 85%

We asked how satisfied they were with the reporting produced by the finance team, with 50% 'very satisfied' and only 10% were 'not satisfied'.

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

50% Very satisfied

40% Neutral

10% Not satisfied

We asked if the finance team was adequately resourced with the appropriate segregation of duties with 74% responding with 'yes'. This was similar to the findings from our previous surveys, where 78% said yes.

Q: Is your finance team adequately resourced with appropriate segregation of duties?

Y 74%

N 26%

FINANCE TEAM (CONT.)

When we asked if the organisation had reviewed any finance processes in the last 12 months, a pleasing 81% responded 'yes'. Again, this was similar to findings in previous years.

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

Y 81%

N 19%

Annual reviews of finance processes are crucial for maintaining efficiency and accuracy. By regularly examining their operations, finance teams can adapt to changing regulations, business growth, and technological advancements. Identifying and eliminating inefficiencies, reducing errors, and mitigating risks are key benefits.

Also, process reviews contribute to improved data quality, supporting better decision-making and strategic planning.

Ultimately, streamlined processes enhance team morale, productivity, and the organisation's overall financial health.

We asked if the organisation was considering outsourcing any part of the finance process with 43% responding 'yes'. This was a marked increase from our 2023 Financial Management report, where 31% responded yes.

Q Have you considered outsourcing any part of your finance process?

Y 43%

N 57%

As in previous years' survey results, payroll is the number one thing that respondents are looking to outsource.

Q Which part*....

Payroll	49%
Bookkeeping	26%
Finance function	19%
Other	6%

* Note multiple selections were possible

These results are unsurprising. Australia's payroll and award system is widely considered one of the most complex globally. The complex network of awards, enterprise agreements and state-specific regulations creates a challenging landscape for employers.

We will delve further into payroll, in the payroll section of this report.

FINANCE TEAM (CONT.)

FINANCE TEAM

We asked what the finance team could be doing better, enabling free text.

Some of the comments were:

"We spend a lot of time doing tax compliance which doesn't add value."

"Automation of functions to increase efficiency."

"More meaningful financial information to the end users."

"It's not the team - it's the manual processes and poor system integrations that is the issue."

When analysing this free text, we can see that leaders are generally satisfied with their finance team, but we can identify several key areas for improvement.

Key issues

- Outdated systems hinder efficiency and accuracy.
- Manual tasks and poor system integration creates bottlenecks.
- Limited funding and staffing resources.
- Challenges with data accuracy, consistency, and accessibility.
- Need for more timely, detailed, and actionable insights.
- Improved communication and collaboration with other departments.

Opportunities for improvement

- Invest in modern systems and automation.
- Streamline workflows and eliminate manual tasks.
- Increase resources and develop employee skills.
- Enhance data quality and accessibility.
- Improve the timeliness, relevance, and clarity of reports.

By addressing these areas, the finance team can significantly enhance its performance and contribute more effectively to the organisation's goals.

FINANCE TEAM RISKS

As indicated earlier in the report, there are a number of key challenges facing finance teams in the not for profit sector.

We asked what the biggest risk was with your finance team with some of the key with a summary of the findings below:

- Staff turnover was the most frequent concern.
- Reliance on specific individuals with critical knowledge or skills.
- Limited resources and capacity, difficulty handling workload and lack of segregation of duties.
- Poorly defined procedures and inadequate succession planning.
- Inefficient systems and processes hinder productivity and increase the risk of errors.
- Potential fraud or supplier issues.

"Staff turnover."

"Key person risk and lack of good documentation."

"Inadequate resources and retaining experienced staff."

"Clunky processes."

KEY TAKEAWAYS

- Leaders must carefully weigh up in-house, outsourced, or hybrid finance team models to optimise efficiency, cost-effectiveness, and expertise for their organisation's specific needs.
- High turnover within finance teams significantly increases the risk of financial errors, fraud and compliance breaches.
- Key person risk is a significant concern, highlighting the need for robust succession planning and risk mitigation strategies.
- Outsourcing payroll remains a popular option for organisations.
- Manual processes and poor system integration continues to be a challenge for organisations.
- Ensure effective documentation and system management to support decision-making, improve efficiency, and mitigate risks.

PAYROLL

As highlighted earlier, Australia's payroll and award system is widely considered one of the most complex globally. With payroll often being one of the biggest expenses for organisations, ensuring accurate and timely payroll processing is essential not only for maintaining the trust and morale of employees but also for adhering to legal and regulatory requirements.

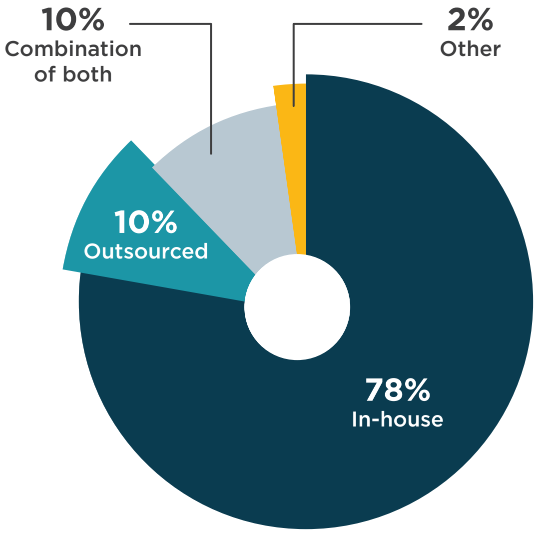
By providing reliable and equitable compensation, employers cultivate a motivated and dedicated workforce. Proactive financial management is crucial in this process, allowing organisations to forecast and budget for payroll expenses, thereby reducing the risk of underpayment. This approach helps avoid unforeseen costs related to wage repayments, thereby protecting financial health and reputation, and freeing up additional resources to focus on core mission and objectives.

MANAGING PAYROLL

Choosing whether to manage payroll in-house, outsource, or use a combination of both is a critical decision for any organisation and impacts efficiency, compliance, and overall operational effectiveness. Each method has its benefits and trade-offs, making it essential to carefully evaluate how each aligns with the organisation's strategic goals and operational capabilities.

We inquired about how survey respondents handle their payroll and discovered that 78% manage it in-house.

Q How do you manage your payroll?



This high percentage indicates a preference for internal control over payroll processes, likely driven by the desire for direct oversight, customised solutions, and potentially lower costs. However, 10% of organisations that outsource or use a hybrid approach show that some are exploring or benefiting from external or mixed solutions to effectively address their payroll needs.

Those who outsource their payroll processing should be aware that the accountability for payroll non-compliance remains with the employer. Ultimately, the best choice depends on the organisation's size, budget, resources, and risk tolerance.

PAYROLL (CONT.)

REMUNERATION

Competitive and fair compensation is critical for attracting and retaining top talent committed to the organisation's mission. Implementing regular wage increases demonstrates a commitment to valuing employees' contributions, fostering a positive work environment, and enhancing productivity. A well-compensated, stable workforce ultimately supports organisations to achieve their goals more effectively and serve their community better.

We asked respondents if wages had increased in the last 12 months and found that 90% said 'Yes'. This reveals a growth of 7% reported wage increase in comparison to our 2023 report.

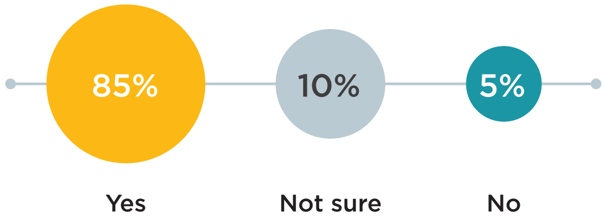
Q Have your wages increased in the last 12 months?

We found that 56% reported wages went up by 3-6% and the average wage increase was 4.64%, a slight decrease from last year's figure of 5.7%. This likely reflects budget constraints and shifting priorities throughout the year in response to economic conditions and rising inflation. Tight budgets influenced by fluctuating donations and funding, rising operational costs, and priority to invest in mission-driven activities or infrastructure rather than salary increases could be contributing factors to this decrease.

PAYROLL SYSTEMS

We asked survey respondents if they had confidence that their systems are up to date and are complying with all employee entitlements, including awards. 85% expressed confidence in their systems — an 8% growth compared to last year's report.

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



Whilst 85% are confident their systems are up to date and are complying with all employee entitlements including awards, regular payroll audits and professional reviews are crucial for ensuring that all payments are accurate and comply with current legislation, identifying discrepancies and errors, and confirming appropriate pay rates and entitlements.

Relying solely on payroll systems exposes organisations to significant risks, such as overlooking rules that span multiple periods, misinterpreting timesheet and attendance data, or failing to navigate complex legal requirements accurately.

Yellow Canary, a leading automation solution for workforce compliance, has found that relying on systems for compliance depends on three key assumptions:

1. The payroll system is precisely prepared for every specific unique scenario with accurate inputs.
2. The payroll system can manage the complexities of legislation, awards, and enterprise agreements.
3. The payroll system can adapt to the changes of awards, enterprise agreements, and regulations.

These assumptions often prove to be incorrect more frequently than employers would like, indicating that even the most advanced systems can have compliance gaps. Just as financial statements cannot be audited in real-time, the same applies to payroll. Therefore, it is important to retrospectively assess compliance for effectively navigating the ever-evolving industrial relations landscape.

PAYROLL (CONT.)

EMPLOYEE SELF-SERVICE

Employee self-service functionality within systems allow employees to directly submit and manage claims for additional entitlements such as overtime or allowances, streamlining the approval and processing workflow.

By automating these processes, the system reduces administrative overhead, minimises manual errors, and accelerates financial reporting. It provides real-time data access and tracking, enabling financial leaders to maintain accurate budget forecasts and get support for compliance. This approach not only optimises resource allocation but also improves transparency and employee satisfaction by offering a user-friendly platform for managing financial entitlements.

When asked if employees use a self-service system to claim additional entitlements like overtime or allowances, 47% said yes.

Q Do your employees use a self-service system to claim additional entitlements like overtime or allowances?

Y 47%

N 53%

The 53% who said ‘no’ indicate that some organisations still depend on traditional methods.

While employee self-claim systems can be convenient, reliance on these can lead to inaccuracies if employees input incorrect data or misunderstand their obligations under awards or agreements. This underscores the importance of compliance reviews and tools to complement payroll systems within the governance framework.

PAYROLL COMPLIANCE AUDITS

Payroll audits should be a regular and integral part of the governance framework to complement the use of payroll systems. By embedding regular audits and reviews into the governance structure, organisations can proactively identify and address compliance issues, uphold a high standard of financial integrity, maintain trust with stakeholders and safeguard reputation.

We found that 60% have audited (either internally or via a third party) their payroll for awards, enterprise agreement or industrial instrument compliance.

Q Have you ever audited (either internally or via a third party) your payroll for awards, EA or industrial instrument compliance?

Y 60%

N 40%

Although 40% have not audited, this still represents a significant portion that raises concerns about the overconfidence in payroll systems and a lack of awareness of potential compliance gaps that an audit or professional review could reveal.

Given the complexity of legislation, awards and enterprise agreements, along with the unique and evolving nature of employee working scenarios, relying solely on a payroll system for compliance auditing is insufficient. When organisations wait until underpayments occur, before addressing compliance issues, they risk facing significant penalties, legal action and damage to their reputation. Such reactive measures can lead to costly settlements, strained employee relations and loss of trust from stakeholders.

In Yellow Canary’s experience, when underpayments occur, audits conducted by the organisation often focus primarily on remediation to address existing issues. While this is important, it does not tackle the underlying causes or assist with ongoing compliance. Ongoing audit reviews provide a proactive approach by identifying potential problems and discrepancies before they escalate and ensure that systems stay aligned with changing legislation and regulations. This proactive strategy strengthens overall compliance, improves organisational efficiency, and fosters positive relationships with employees and regulatory bodies.

PAYROLL (CONT.)

We did not explore the use of automation in this survey question. However, as a leading payroll compliance tool, Yellow Canary recognises the significant role automation can play in enhancing payroll reviews and compliance management. In future surveys, we aim to investigate the technologies used, including automation. Understanding how automation is applied will provide valuable insights into its impact on audit effectiveness and overall compliance management.

CLASSIFICATION REVIEWS

Having position descriptions reviewed by a professional adviser is a crucial part for ensuring regulatory compliance, fair compensation, and risk management. It helps accurately classify roles and align with current legislation, to then improve operational efficiency and prevent legal issues.

The recent survey reveals that 49% of respondents have had their position descriptions reviewed by a professional adviser to ensure accurate employee classification.

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

Y 49%

N 51%

This is compared to 42% in the previous year. This increase suggests a growing recognition of the importance of proper role classification and compliance. The uptick indicates that more organisations are prioritising professional reviews to align position descriptions with current regulations and standards, but ongoing efforts are needed to address the remaining uncertainty and enhance overall payroll accuracy and compliance.

Misclassification of employees under complex awards could also result in financial liabilities, penalties, reputational damage and employee grievances, making it crucial for employers to ensure accurate classification and compliance.

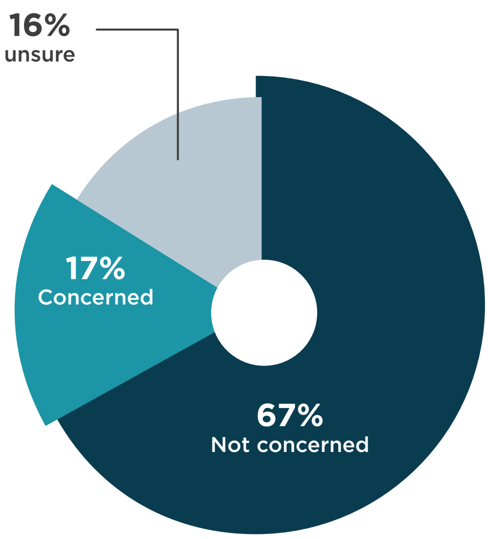
CONCERN AROUND MODERN AWARD COMPLEXITIES

With over 120 modern awards each containing detailed and specific rules, managing payroll accurately has become highly complex. Getting support for compliance requires careful navigation of each award's unique entitlements, pay rates, and conditions. This complexity increases the risk of errors and underpayments, making it essential to have robust processes and expertise in place to handle the diverse requirements effectively.

We asked respondents an open-ended question about their biggest concern regarding payroll. 19% were concerned about the complexity of modern awards, while other concerns included, super guarantee charge compliance for contractors, data accuracy, manual processes, leave entitlement accruals, system reliability, employment contracts and internal capacity.

This result aligns with our next question about concerns regarding the historical application and interpretation of awards and the risk of underpayment, where 17% expressed concern.

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



Although 67% of respondents stated they were 'not concerned,' it's crucial to recognise the reality of the situation.

PAYROLL (CONT.)

Yellow Canary has found that from reviewing 100 wage cases, encompassing more than $70 billion in wage and entitlement spend for some of Australia's largest employers, underpayments occur in approximately 1% of payroll. While 99% accuracy may seem sufficient, it is within that small 1% where significant issues can arise and compound over time.

Employers must adopt a more vigilant approach to payroll compliance, as even minor errors can lead to substantial liabilities and reputational damage. Ensuring meticulous accuracy in every aspect of payroll is essential to prevent these risks and maintain trust and compliance.

PAYROLL CONCERNS

When respondents were asked to express their biggest concerns, the top three responses were:

1. **Compliance and regulatory issues**: Staying updated with complex labour laws and accurately applying award structures.
2. **System and process inefficiencies**: Relying on outdated systems and manual processes, leading to errors and delays.
3. **Talent and resource constraints**: Lack of expertise and insufficient staff to manage payroll and HR effectively.

Additional challenges identified include financial and operational risks such as underpayment, inaccurate costing and cash flow issues. Other concerns highlighted were the overclassification of roles, cybersecurity vulnerabilities and difficulties in determining appropriate executive compensation.

Some of the comments regarding payroll concerns were:

"Legacy employment contracts & entitlements".

"Manual calculation of award entitlements, antiquated payroll system, inefficiency in procedures and processing"

"Paying staff a salary that is commiserate with the responsibilities".

KEY TAKEAWAYS

- Leaders need to weigh up factors such as cost, control, expertise, and compliance risks regarding managing payroll in-house, externally or a hybrid model.
- Wage growth coupled with the increase to the superannuation guarantee is increasing labour costs for organisations.
- Although payroll management may seem straightforward, delivering precise compensation involves more than just using a reliable payroll system.
- Utilising payroll compliance tools, such as Yellow Canary, conducting regular payroll reviews, and consulting professional advisers offer a more comprehensive strategy for managing the complexities of modern awards and preventing costly errors.
- Underpayment of employees can lead to a significant reputational risk, which can damage an organisation's ability to generate income.

FINANCE TECHNOLOGY

The financial technology landscape has undergone a dramatic transformation in recent years, with advancements in digital payments, blockchain, and artificial intelligence reshaping the industry.

These rapid changes have presented both opportunities and challenges for not for profit organisations, requiring leaders to adopt a strategic approach to leverage fintech for increased efficiency and impact.

We asked respondents to rank technologies in order of importance to the organisation (with 1 being the most important and 6 being the least) with the results displayed in the following table.

Rank the following technologies in order of importance to your organisation
(with 1 being the most important and 6 the least)

MOST IMPORTANT ⟶ LEAST IMPORTANT

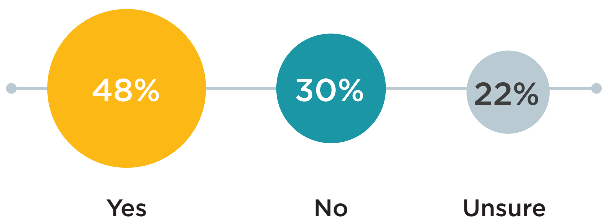
	1	2	3	4	5	6
Automate financial reporting	21%	27%	30%	17%	5%	0%
Integrate systems	27%	43%	17%	8%	5%	0%
Manage multiple funds through fund accounting	5%	3%	6%	13%	52%	21%
Automatic tracking and reporting of outcome metrics	6%	6%	25%	44%	14%	5%
Automated consolidation of multiple entities	0%	0%	2%	6%	21%	71%
Data security	41%	21%	21%	11%	3%	3%

Not surprisingly 'data security' was the highest priority, highlighting the growing awareness of data protection risks and the need for robust security measures.

Integrating systems and automating financial reporting also rated highly. This indicates a strong desire for streamlined financial processes and reduced manual effort.

We asked whether the organisation's current finances systems and process will be able to support growth, with 48% responding 'yes'. With the remainder responding 'no' or' unsure', this shows a key area for leaders to focus on and develop.

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



To delve further, we asked leaders why or why not they thought that the finance system could support growth. Respondents expressed widespread dissatisfaction with their current finance software, often citing outdated systems, limited features and poor user experiences.

FINANCE TECHNOLOGY (CONT.)

A strong desire for integration and automation emerged, as users seek to streamline processes and reduce manual tasks. Adaptability and scalability were also crucial factors, with respondents emphasising the need for software that can grow with their business.

Additionally, robust data management, reporting capabilities, and reliable vendor support were highlighted as essential elements for effective financial management.

"We lack knowledge about alternatives that might lead to greater efficiency"

"Our systems are outdated and at the end of their life"

"We have just launched power BI which will be a big step forward for reporting"

Implementing the right technology can be a game-changer for organisations, but with so many available options, it may be hard to know which one to use.

We asked if you were using any of the following to assist with your finance and operational processes, with the results displayed in the table.

Q Are you using any of the following to assist with your finance and operational processes?

Cloud-based software	75%
No	17%
Optical Character Recognition (OCR) technology	3%
Other	3%
Robotic Process Automation (RPA)	2%
AI/Machine Learning	0%

We then asked what was stopping the organsation from investing in new technology, with the results displayed in the table below.

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

Budget constraints	**67%**
Limited staff capacity	**57%**
Lack of knowledge or expertise	**43%**
Security concerns	**29%**
Resistance to change	**24%**
Integration challenges	**22%**
Uncertain ROI	**19%**
Infrastructure limitations	**16%**
Other	**13%**
Risk aversion	**5%**

Unsurprisingly 'budget constraints, limited staff capacity' and 'lack of knowledge or expertise' were the key drivers.

There does however need to be emphasis on using technology to enhance impact, improve service delivery, and manage finances.

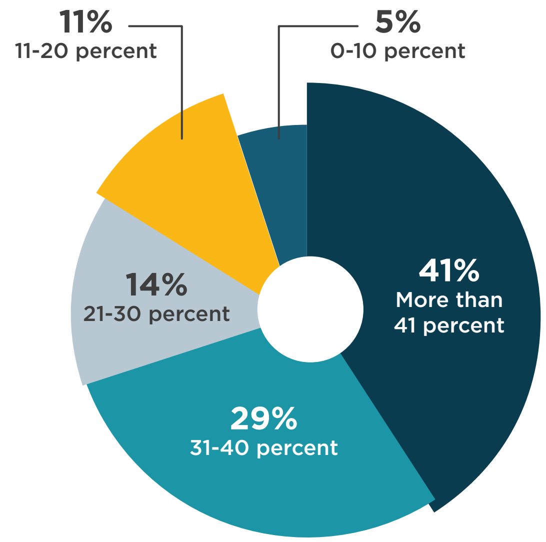
Failure to invest in technology risks leaving your organisation behind others, leading to inefficiencies, missed opportunities and an inability to meet evolving market demands.

FINANCE TECHNOLOGY (CONT.)

AUTOMATION

As not for profits often have limited resources, we asked, what percentage of the finance team's tasks were being performed manually verses through automation.

Q What percentage of your finance team's tasks are performed manually (versus being automated)?



A majority of respondents (70%) indicated that at least 31% of their finance team's tasks are performed manually. Many finance teams are still heavily reliant on manual processes, which can lead to inefficiencies, errors and increased costs.

While some teams have achieved a high level of automation, there's a substantial opportunity to increase automation across the organisations. Organisations should prioritise automating tasks that are time-consuming, error-prone, or have a high volume. Adopting automation tools and technologies can help finance teams improve productivity and accuracy.

We then asked what steps the organisation was taking to increase automation in the finance processes.

Many respondents said they were starting the process by reviewing and analysing their current processes to identify areas for automation, and some had already started the journey.

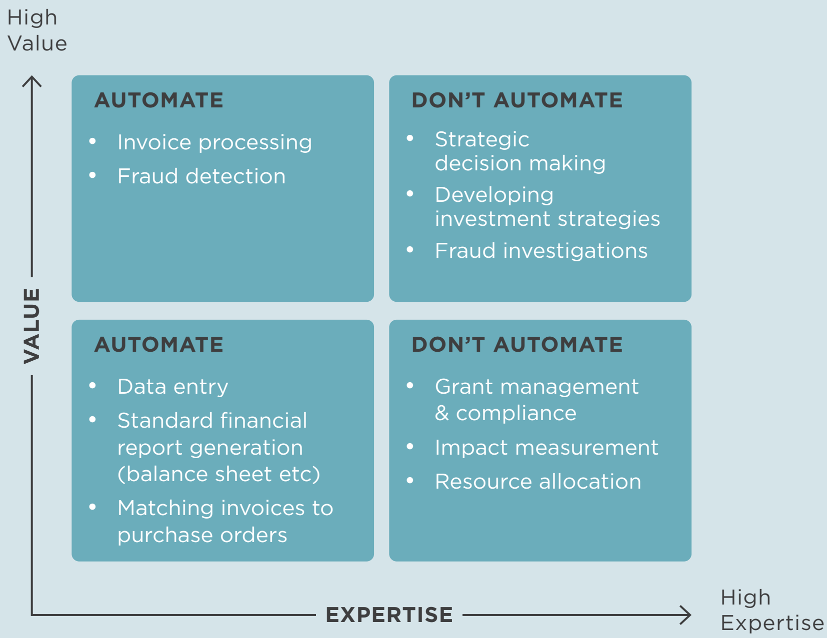
"Currently mapping our processes to find opportunities and identify system replacements"

"Installed invoice OCR and now looking at AR processes".

WHAT CAN I AUTOMATE?

When reviewing processes for automation it's important to understand what functions are best for automation. Knowing where to start and what to automate (and what even can be automated) can be daunting.

The following matrix can assist you in working out what you can start to automate. The matrix has four quadrants and has an axis for both Value and Expertise. Tasks (or processes) that are high value but require low expertise are perfect for automation.



FINANCE TECHNOLOGY (CONT.)

ARTIFICIAL INTELLIGENCE (AI)

AI has undergone a meteoric rise in the past two years, with advancements in large language models and generative AI capabilities pushing the boundaries of what was previously thought possible. This rapid evolution has led to AI being integrated into countless industries and applications, transforming the way we live and work.

People are interacting with AI every day - from using virtual assistants like Siri or Alexa to control smart home devices, to receiving personalised product recommendations while online shopping, AI is seamlessly integrated into our lives.

We asked what your level of understanding was with AI and its applications was and saw near identical findings as our 2023 report (where 84% had little understanding and 14% strong understanding).

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

Little understanding	84%
Strong understanding	14%
No understanding	2%

We asked respondents whether they 'agreed' or 'disagreed' with a set of statements about AI. Again, we saw similar findings to our 2023 report, with people indicating it will have a positive impact, but not having the skills and budget to implement AI.

It's understandable that people may have limited understanding of AI and its application, particularly in a business sense. The complex nature of AI, characterised by advanced mathematics and computer science, often presents a barrier to comprehension. Additionally, the rapid pace of AI development can make it difficult to stay informed or up to date with the latest advancements.

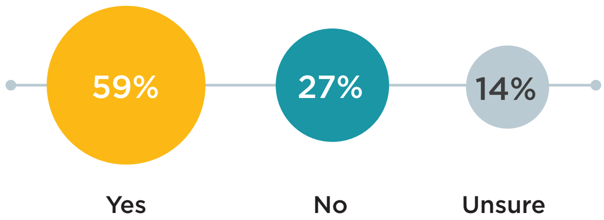
Q To what extent do you agree or disagree with the following statements?

	Strongly agree	Agree	Neutral	Disagree	Strongly Disagree
AI will positively impact my day to day work	17%	60%	21%	2%	0%
We will be able to achieve more as an organisation with the use of AI	16%	62%	21%	2%	0%
We have the necessary skills and budget to implement AI	2%	17%	17%	44%	19%

FINANCE TECHNOLOGY (CONT.)

When asked if the organisation had included AI and automation in the strategic plan, 27% responded yes, an increase from 13% in last year's survey.

Q **Have you included AI and automation in your strategic plan?**



Moving forward, AI should be a basis of the organisation's strategic plan due to its potential to revolutionise your organisation.

By incorporating AI, organisations can harness its power to analyse vast datasets, uncover hidden patterns and predict future trends. This data-driven approach enables leaders to make more informed decisions, identify new opportunities and optimise operations.

Additionally, AI can automate routine tasks, freeing up human resources to focus on strategic initiatives.

Ultimately, integrating AI into the strategic plan positions your organisation for long-term success and provides a competitive advantage in an increasingly data-driven world.

KEY TAKEAWAYS

- Data security remains the number one priority for leaders as organisations increasingly rely on digital systems and face evolving cyber threats.
- With budget constraints being top of mind for leaders when looking to invest in technology, careful consideration of ROI and potential cost savings is essential.
- Automation is important, however achieving a balance between automation and human processes is essential for maximising efficiency, accuracy, and employee satisfaction.
- AI is rapidly evolving, offering leaders new opportunities to optimise operations, enhance fundraising efforts, and deepen community impact through data-driven insights and automation.
- Organisations must embrace and invest in automation and digital transformation, so they don't get left behind.

Organisations that don't adopt technology and automation risk falling behind in today's rapidly changing landscape.

FINANCIAL RISK MANAGEMENT

Financial risk management in not for profits involves identifying, assessing, and mitigating potential financial threats to an organisation's operations and sustainability. By implementing effective strategies, organisations can protect their assets, ensure the delivery of services, and maintain public trust.

We asked what the primary financial risks were faced by the organisations.

Unsurprisingly the top four responses relate to loss of funding, cybersecurity and economic challenges

Q What are the primary financial risks your organisation faces?

Loss of major funding sources	**59%**
Cybersecurity threats	**57%**
Inflation and rising costs	**54%**
Economic downturn	**43%**
Dependency on a single funding source	**40%**
Increased competition for funding	**40%**
Regulatory changes	**33%**
Donor fatigue	**29%**
Staff turnover affecting financial oversight	**22%**
Market volatility	**14%**
Project overruns	**14%**
Fraud	**13%**
Unreliable cash flow	**13%**
Inadequate financial planning	**11%**
Natural disasters or emergencies	**10%**
Other	**8%**
Financial mismanagement	**5%**

The findings indicate that funding remains a persistent challenge for not for profit organisations. The sector continues to grapple with shrinking government grants, increased competition for donor funds and escalating operational costs.

These results also reflect the findings from our Not for Profit Leaders Report on Strategic Planning earlier this year, where developing and diversifying funding sources was a priority for 77% of respondents.

Not for profit organisations need a comprehensive approach to financial risk management, encompassing both internal controls and external factors. Diversification, financial planning, and effective risk assessment are crucial for ensuring organisational sustainability.

FINANCIAL RISK MANAGEMENT (CONT.)

MITIGATING FINANCIAL RISKS

Mitigating financial risks is crucial for organisations to safeguard their operations, protect resources, and ensure the ongoing delivery of services to the community.

We asked what measures were in place to mitigate financial risks, with the results displayed below.

Q What measures does your organisation take to mitigate financial risks?

Implementing internal controls	**87%**
Regular audits and reviews	**84%**
Segregation of duties	**79%**
Strict approval policies for financial transactions	**71%**
Maintaining financial reserves	**70%**
Purchasing insurance	**60%**
Whistleblower policies	**51%**
Conducting background checks on employees handling finances	**51%**
Educating staff on fraud awareness and prevention	**48%**
Diversifying funding sources	**46%**
Establishing fraud prevention policies	**30%**
Conducting scenario planning	**29%**
Fraud detection software	**10%**
Other	**5%**

It is pleasing to see high percentages, showing us that the majority of respondents are using multiple controls.

Given that 59% of organisations experienced turnover in their finance team this year, the importance of robust financial controls is undeniable.

While traditional methods (internal controls, audits, segregation, approval processes) are prevalent, there's a growing trend towards addressing employee-related risks through background checks and training, as well as exploring more proactive strategies like diversified funding and risk assessment tools.

We encourage leaders to look at enhancing their risk management capabilities by fostering a culture of risk awareness, providing adequate resources for risk assessment, and empowering staff to identify and report potential risks. This proactive stance will enable organisations to better anticipate and respond to challenges.

CHALLENGES

We then asked what the biggest challenge was in managing financial risks.

It comes as no surprise that limited resources are a significant obstacle for many.

Q What are the biggest challenges your organisation faces in managing financial risks?

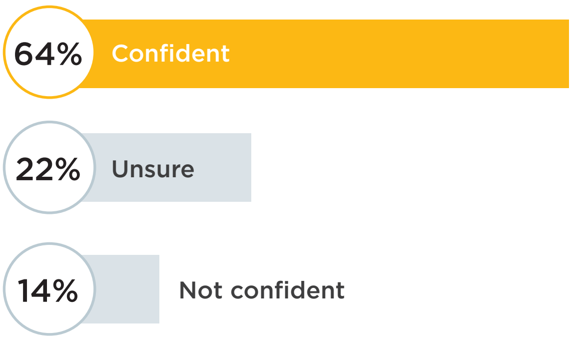
Limited resources	**71%**
Inadequate technology for risk monitoring	**37%**
Balancing risk management with growth objectives	**33%**
Insufficient training and awareness among staff	**32%**
Communication gaps between departments on risk issues	**27%**
Complexity of regulatory compliance	**24%**
Difficulty in predicting and assessing risks	**22%**
Inconsistent risk management practices across departments	**21%**
Cultural resistance to change in risk management practices	**17%**
Challenges in aligning risk management with organisational values and culture	**17%**
Challenges in integrating risk management into strategic planning	**14%**
Lack of access to timely and accurate financial data	**14%**
Difficulty in prioritising risks based on severity and impact	**13%**
Resistance to adopting new risk management methodologies	**11%**
Other	**6%**

These challenges underscore the need for a holistic approach to financial risk management. Organisations must prioritise investments in human capital, technology, and strategic planning to effectively address these issues and build resilience.

FINANCIAL RISK MANAGEMENT (CONT.)

We asked how confident leaders were in their systems, with 64% responding ‘confident’, 14% ‘not confident’ and 22% ‘unsure’. There's a notable decline in confidence levels regarding system capabilities to prevent and detect fraud compared to the previous year’s financial management survey. The percentage of respondents expressing confidence dropped from 72% in 2023.

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



The overall trend indicates a declining perception of system effectiveness in preventing and detecting fraud. This could be due to various factors such as increased fraud incidents, system vulnerabilities, or changes in the threat landscape.

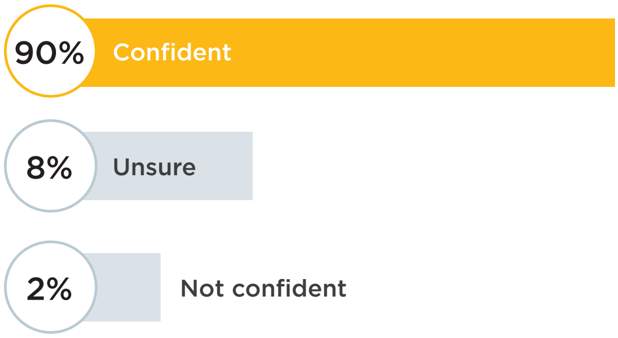
The rise in uncertainty suggests a growing awareness of potential risks and gaps in fraud prevention and detection measures.

We can only look at the reports of fraud within the National Disability Insurance Scheme to see the affect this has. The Australian Broadcasting Corporation reported in December 2023 “An estimated $1.4 billion was lost from the National Disability Insurance Scheme last financial year due to "payment errors" including fraud and over-claiming, a five-fold increase from two years ago.” *Source: Australian Broadcasting Corporation. (2023, December 5). NDIS fraud costs billion-dollar loss.*

Not for profit organisations rely heavily on public support and donations to operate, and when instances of fraud come to light, it can erode the public's confidence in their ability to manage funds responsibly.

On general governance issues, when we asked how confident that your organisation is complying with all appropriate laws and regulations, 90% of respondents confirmed they were confident (and increase to the 83% reported in 2023).

Q Are you confident are you that you comply with all appropriate accounting standards, laws and regulations?



KEY TAKEAWAYS

- With funding continuing to be a persistent challenge for not for profit organisations, diversifying venue is crucial for managing financial risk management.
- Leaders must implement a diverse range of strategies to effectively manage financial risks.
- Organisations must prioritise investments in human capital, technology, and strategic planning to effectively address these issues and build resilience.

OUR NFP STRATEGY LINK

The not for profit specialist team at HLB Mann Judd are well-versed in working with clients in planning for, hosting and developing strategic plans.

Our team have 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.

If you have any questions or require guidance, please reach out to our Not for Profit team.

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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 1069 offices in 157 countries), our clients also have access to worldwide expertise.

The Sydney firm has over 35 Partners and Directors and over 220 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.

EXCLUSIVE NOT FOR PROFIT COMMUNITY

The Exclusive Not for Profit Community (ENFP) was founded in 2010 after consultation with senior key sector leaders seeking access to a forum where they could raise and explore their strategic issues, sound board their day to day issues and challenges and at the same time collaborate with peers to create greater impact on society.

Through this community, complimentary bi-monthly boardroom briefings and communications on current and relevant topics are delivered to support and advance members' vision and purpose. The forum provides networking opportunities, guidance, upskilling and the development of tools to assist NFPs with regulatory compliance and governance matters.

As part of the ENFP you will be kept abreast of the ever changing environment through our numerous programs:

- Biannual NFP leader's reports on Strategic Planning & Financial Management. These reports provide insight into the sector and allow you to benchmark your organisation to others.
- Annual Not for Profit Financial Reporting presentation facilitated by HLB Director of Financial & Corporate Reporting Michelle Warren & Carmen Ridley (Member of the IASB and former AASA Board Member).
- NFP Strategy Link program which looks at planning for Growth & Management, Staff Recruitment & Retention, Process Effectiveness, Risk Mitigation, Mergers & Allegiances and Financial Management.
- Quarterly newsletter 'For Impact' covering subjects such as:
  - NFP Governance updates
  - Compliance ACNC activities
  - Financial Reporting insights
  - Fundraising Government updates
  - Deductible gift recipients and audits
  - Aged-care & NDIS.

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

ENFP COMMUNITY

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