

Not for Profit organisations can benefit from a forum to identify and voice concerns and key issues. The **Grant Thornton 2005 Survey** builds on our earlier survey...

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...by offering contributors to this valuable sector an opportunity to comment and to measure their practices against their peers.

## Charitable Donation

Grant Thornton pledged a \$500 donation to the Association of Staff in Tertiary Education at the request of Sharn Riggs, the winner of the draw open to all respondents who returned their questionnaires by 1 August 2005.

# Executive Summary

## Contents

- 1 Executive Summary
- 2 Significant Issues Challenging the Not for Profit Sector
- 3 Governance in the Not for Profit Sector
- 4 Trends in the Use of Financial Statements and Non Financial Reporting
- 5 Risk Management Planning
- 6 Perceptions of the Charities Act and Charities Commission
- 7 The Survey Methodology
- 8 About Grant Thornton

The Grant Thornton 2005 Not for Profit Survey was designed to reveal trends in the New Zealand Not for Profit sector.

Key findings to emerge include:

- The **three most challenging issues** for the Not for Profit sector are financing, fundraising and governance. These issues were also of leading concern to participants in our 2003 survey.
- Over half of survey respondents are worried about the **sustainability of their key source(s) of income**. However, through concerted efforts, a majority are managing to maintain their incomes at healthy levels. 57% recorded increased income levels in the last year, and 54% expect their income to rise in the next twelve months. Only a small minority are experiencing a drop in income.
- **Boards of Not for Profit organisations** are most likely to **number between seven and twelve members**. They usually meet monthly or bimonthly.
- **Board members** are drawn most commonly from internal sources, such as from regional or membership representatives. Key stakeholders are also frequently represented. This reliance on sourcing board members from within Not for Profit organisations can be linked to the **methods most often used to attract and identify new board members**. 68% of survey respondents use word

of mouth and/or shoulder tapping, whilst 32% rely on their internal communications such as newsletters, to source new members. Only a minority look outside their organisations for board members. Very few utilise external methods to find members, such as recruitment agencies or external advertising. This inward focus may be constraining the range of skills and experience available to govern Not for Profits.

- More than half of respondents **are concerned about their ability to attract high calibre individuals** to serve on their boards. 46% are concerned their boards do not undergo sufficient training, and 41% believe their boards lack adequate knowledge of relevant legislation.
- The sector is **adopting some high quality governance practices**. For example, 79% of boards ensure they comply with their own policies. 71% of boards develop annual work plans and 69% consider board succession issues. **However, there is room for improvement** in other areas. Only 44% of boards evaluate their own performance. Less than half make use of board only time. Large numbers also fail to document some key aspects of governance, such as "best practice" for boards, codes of ethics and conflict of interest policies.

- **A growing number of Not for Profit boards are remunerated.** 36% of respondents currently pay one or more members of their boards, compared to only 24% in our 2003 survey.
- **Most Not for Profits produce timely financial statements** within four weeks of month end, as well as a wide range of non-financial information. A majority also evaluate and document their internal financial controls on a regular basis. However, on a less ideal note, **there is considerable emphasis on producing financial budgets and forecasts which look out only for a twelve month period**, even though budgeting for a longer time would enhance forward planning and offer greater certainty.
- **Demonstrating accountability to stakeholders consumes a large volume of resources.** Most respondents are required to report regularly to stakeholders, sometimes as frequently as every month. Over a third of respondents have to satisfy four or more key stakeholders.
- **Many Not for Profits give low priority to risk management.** Nearly half of respondents do not undertake periodic risk profile assessments. They may therefore be highly vulnerable should they face major problems beyond their control. Even amongst those that do undertake risk planning, there are gaps. For example, few have contingency plans, or insurance, for the loss of key staff or other personnel. Planning to mitigate potential fraud is also uncommon. Less than half of respondents have "worst case scenario" plans for disaster, loss of key income, or adverse media attention.
- There is **much scepticism amongst the sector about the Charities Act and the Charities Commission.** 52% of respondents are uncertain whether the Charities Act will be helpful and 49% are either uncertain, or disagree, that they understand the Act and what it means for their organisations.

Detailed analysis of these findings is provided in the following commentary.

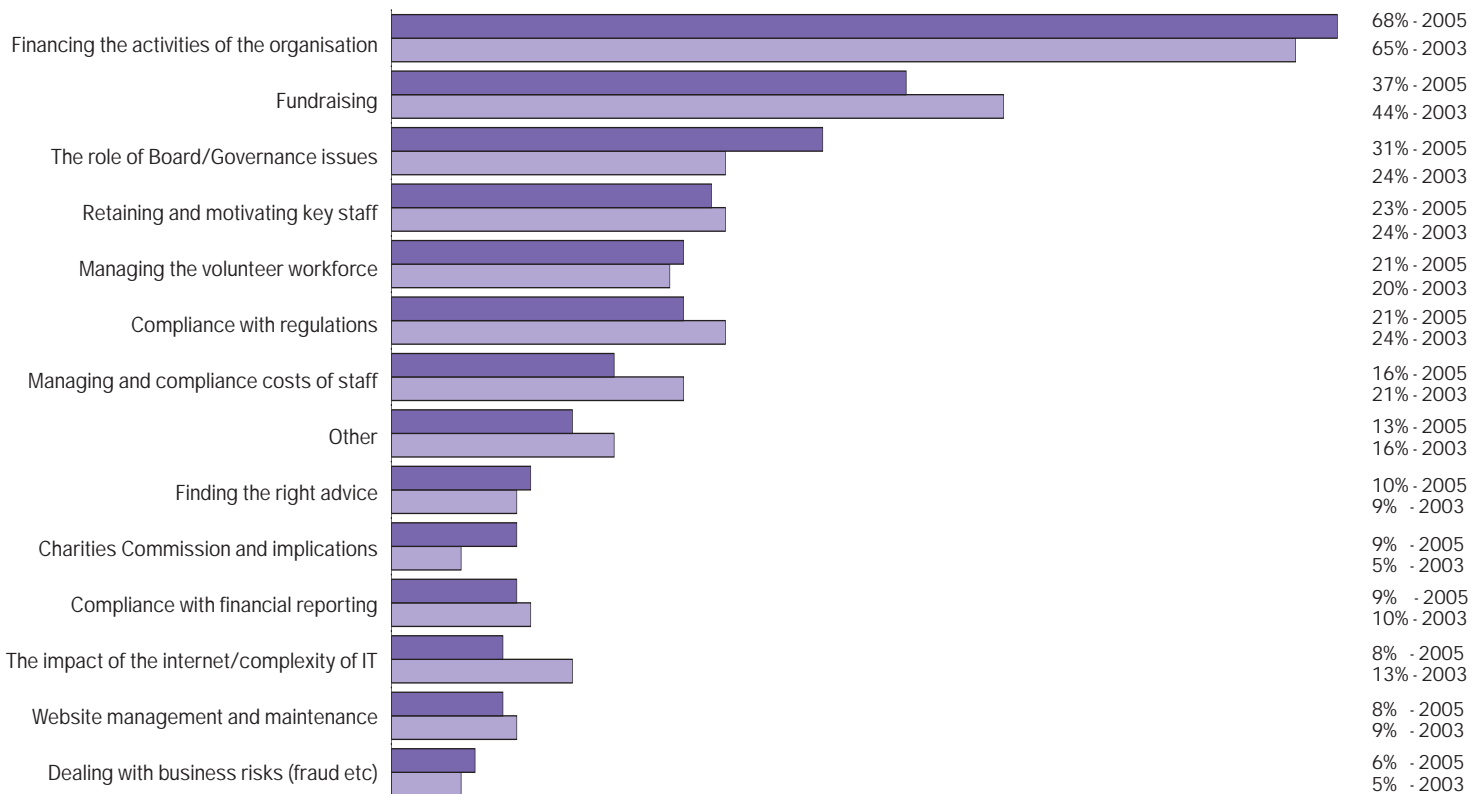
## Significant issues challenging the Not for Profit sector

This year, as in 2003, respondents to our survey were asked to identify the three most significant issues challenging their Not for Profit organisations. The 2005 results are remarkably similar to those of

our 2003 survey. Once again the same issues - financing, fundraising and governance - topped the poll, attracting the highest levels of concern amongst very similar percentages of respondents.

It seems these issues are perennial challenges which are not being addressed because the sector is either unable, or unwilling, to do so.

Figure 1 - Most significant issues in 2005, compared to 2003



### Financing the Activities of the Organisation

Financing the activities of the organisation is a significant issue for 68% of respondents, up from 65% in 2003. This reflects the tension experienced by many Not for Profits when balancing their philanthropic and intangible goals against the commercial realities of surviving in a competitive sector. Much effort has to go into sourcing funds, expanding trading income and client or member numbers, whilst ensuring financial soundness through the likes of adequate cash flows, reserves and capital expenditure budgets. Some reluctance to raise loans, which can be perceived as "mortgaging the family silver", could be contributing to difficulties with financing.

### Fundraising

Fundraising is the second most widespread concern, being rated by 37%. The ever present need to raise funds, often in competition with other Not for Profits, makes a huge call on our respondents' resources. Grants must be applied for regularly; contracts won and their renewal secured; and members or clients serviced so they remain loyal. Those reliant on public donations not only have to ensure that donors receive sufficient information and encouragement, but are also at risk from external and unpredictable events, such as the 2004 tsunami.

Levels of concern about fundraising have, however, reduced since 2003 when they troubled 44% of respondents. This may be because some Not for Profits are developing innovative fundraising strategies and reaping greater rewards. It may be a result of benign economic conditions, including increased investment returns for both funding providers and Not for Profits themselves. It is also our experience that some funding providers are becoming more targeted when evaluating beneficiaries and distributing funds, for example by giving to national organisations rather than to individual regional branches. This targeting could present difficulties for some Not for Profits but for others, who fall within the funding providers' criteria, it could be presenting new opportunities.

### The Role of Board/Governance Issues

An increased proportion of respondents, 31% compared to 24% in 2003, are challenged by governance issues. Developing best practice governance can be a complex exercise for any entity, but the nature of Not for Profits can complicate the process further. Not for Profits sometimes have well meaning board members who know much about their organisations but may lack the skills to provide leadership and direction. They may suffer from the absence of a clear framework or set of

policies to focus the work of the board. Others are inhibited by insufficient performance review of board members. With so many pressing operational matters to address, there is a risk that Not for Profit governance structures can become reactive, rather than proactive.

The increased focus on governance revealed by the survey may also simply reflect greater awareness of governance issues, rather than any decline in actual governance performance.

### Staff Issues

Given the tight labour market, it is not surprising that 23% of respondents worry about retaining and motivating key staff. This is similar to the level of concern voiced in 2003 about this issue. Whilst Not for Profits are often unable to match the salaries of the corporate sector, they can show imagination in developing alternative staff incentives. Examples include generous parental and childcare leave, flexible work hours and good training. Staff can also be motivated by the worthwhile nature of working for Not for Profit objectives.

Managing and compliance costs of staff also concern 16% of respondents, down from 21% in 2003.

### Managing the Volunteer Workforce

21% of respondents consider managing the volunteer workforce to be a significant issue, compared to 20% in 2003. Volunteers are critical to the survival of many Not for Profits. Volunteer numbers can be large. For example, 13% of our respondents rely on volunteer teams of between 100 and 500, and a further 10% on teams numbering over 500. This presents its own challenges in terms of, for example, communicating with volunteers, providing training, maintaining standards and ensuring safety. Some respondents are struggling to find sufficient volunteers, and are very reliant on aging volunteers, as increasing time and work pressures impact on the wider pool of potential volunteers. This may become a greater problem in future, with rising employment levels and the drive to get people into paid work further reducing the number of available volunteers.

Difficulties with attracting and retaining volunteers may also reflect the level of acknowledgement and value which society attributes to volunteer work, which many feel is less than that attributed to paid work.

### Compliance with Regulations and Financial Reporting

21% of respondents identify compliance with regulations as a key issue, whilst 9% worry about compliance with financial reporting. This compares to 24% and 10% respectively in 2003. Respondents may be concerned that the

resources that have to be siphoned off to ensure compliance with the myriad of statutory regulations may detract from their ability to achieve core objectives.

We had expected that compliance might be rated even higher by more respondents. The recent introduction and amendment of some legislation, for example relating to holidays and smoke free environments, has added to the requirements for statutory compliance. We also thought the International Financial Reporting Standards, due for introduction shortly, would have more influence.

### Website Management and Maintenance and the Impact of the Internet/IT issues

Website management and maintenance is a significant issue for 8%, compared to 9% in 2003. This year, 8% of respondents also rate the impact of the internet and the complexity of IT issues, but this is down from 13% in 2003. The drop in concern about IT issues is positive. Many software solutions are available to assist Not for Profits in areas such as financial control, membership, donor databases and fundraising, and it is possible the sector is now better able to invest and/or train in these.

### The Charities Commission and its Implications

The largest proportionate increase in concern relates to the Charities Commission with 9% rating this as of key importance, up from 5% in 2003. This is not unexpected given that the

Charities Act and Charities Commission have now become a reality. Our survey reveals much uncertainty about both the value of the Charities Act and its implications for individual organisations.

### Other Issues

Respondents were invited to nominate key issues additional to the list we suggested. 13% took this opportunity, compared to 16% in 2003.

Some issues are common to a number of respondents. These include problems relating to Government; instability in the political environment especially in election year; communicating with stakeholders and meeting their expectations; raising public profiles and/or market shares and/or membership levels; in-house structural change and the fair distribution of funds for those with funding responsibilities.

### How do the Concerns of New Zealand Not for Profits Compare with Overseas?

In 2004, Grant Thornton conducted a survey of charitable organisations in the United Kingdom<sup>(1)</sup>. This revealed that UK charities share a number of leading concerns with the NZ Not for Profit sector, especially relating to the sustainability of funding, the competency and calibre of boards/trustees and the restrictions and complexities of red tape and the tax regime.

(1) Grant Thornton UK LLP (2004) Grant Thornton 2004 Charity Survey. London, Grant Thornton.

## Governance in the Not for Profit sector

This year, our survey gave emphasis to governance. Many of our Not for Profit clients have been telling us that governance is an increasingly topical issue for their organisations. The survey results support this impression, with governance emerging as one of the three leading concerns, and as of importance to more respondents than in 2003.

The nature of Not for Profits presents specific challenges to the governance process. Many Not for Profit boards<sup>(2)</sup> are comprised of voluntary part-timers who, whilst they may be enthusiastic operational experts, may lack the experience, skills, detachment or time to govern effectively. It can also be a struggle to apply good governance practices to organisations which are not driven by profit, yet are still required to account to a broad range of stakeholders and demonstrate responsible, transparent operations.

The survey reveals that many Not for Profits are demonstrating quality governance practices. Promising results were recorded in areas such as compliance with board policies, development of annual work plans and consideration of succession issues. However, good governance practices are not universal across the sector and there is room for improvement.

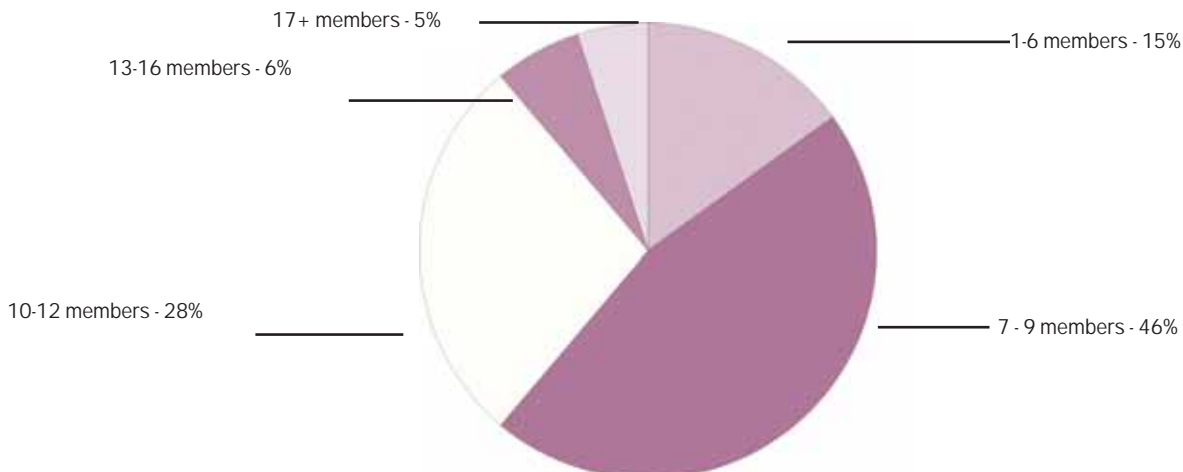
### The Size of Not for Profit Boards

The most common size for boards is between 7 and 9 members, with 46% of respondents operating boards of this size. This mirrors overseas research which puts the average board size for Australian Not for Profits and UK charities at 9 and 9.5 members respectively<sup>(3)</sup>. An odd number of board members can help with decision making when votes are taken.

We were surprised that 11% of respondents operate boards numbering 13 or more members. These boards probably include representatives from regions and/or branches. Their large size may be influenced by the demands of constitutions, or internal politics. However, large boards can be unwieldy and inefficient and should be reviewed regularly.

A further 15% of respondents operate boards of between 1 and 6 members. Small boards can burden their members with increased workloads and impose greater pressures to attend meetings. With only a few members, the diversity of skills on a board may also be limited. It is possible that some respondents would prefer their boards to be larger, but are unable to attract additional candidates.

Figure 2 - Number of Board members



<sup>(2)</sup> For ease of reference, we have used the term "board" in this report. However, the terminology varies amongst Not for Profits. Other common terms include council, committee, directors and trustees.

<sup>(3)</sup> Susan Woodward and Shelley Marshall (2004) A Better Framework: Reforming Not-for-Profit Regulation. Melbourne, Centre for Corporate Law and Securities Regulation, University of Melbourne, p102.

**Board Composition**

Over half of all respondents - 52% - have concerns about their ability to attract high calibre individuals to their boards. This is an increase from 48% in 2003. Clearly, there are widespread difficulties associated with finding the right blend of skills to ensure effective governance. To shed light on this problem, we studied the mechanics of how Not for Profits attract and select board members.

52% of respondents draw on representation from members to fill their boards. Another 30% include representation from regions. In giving weight to members and regions, Not for Profits may be bound constitutionally. However, this emphasis could result in over-representation of people who, whilst they may be high profile and expert contributors to organisations, may not always be equipped with skills

in leadership and strategic thinking. There is a risk they could be inward looking and lack objectivity.

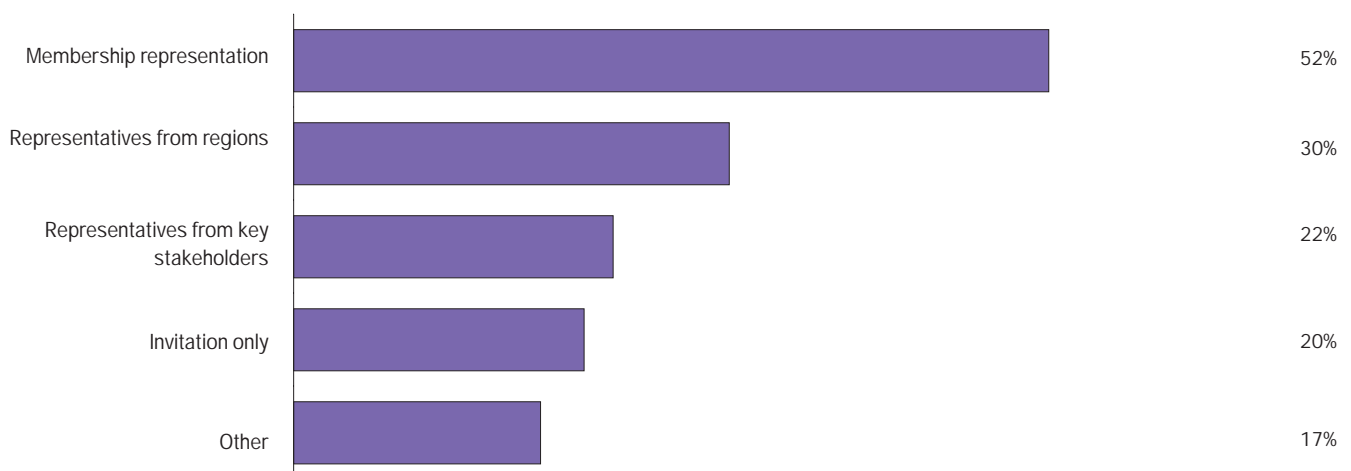
22% of Not for Profit boards include representatives from key stakeholders. This raises a number of issues. Should being a key stakeholder give automatic entry to a board? Is there potential for conflict of interest between the concerns of stakeholder nominees and the objectives of Not for Profit organisations? When sitting on a board, does a stakeholder representative always work primarily for the good of the Not for Profit?

It is encouraging that 20% of respondents invite members to join their boards. This suggests thought is being given to remedying gaps in skills and experience, also that there is recognition of the value of independent

representation. Invitees from outside the organisation can bring a useful, objective viewpoint. They may ask the difficult, but necessary, questions.

17% of respondents select at least some of their board members by other means. Government appointments are common, revealing the Government's considerable influence on the sector. Others choose people with specialist skills such as medical, finance or legal. This should help with widening the range of available skills, but care should still be taken to check that these people do bring an aptitude for governance as well as their specialist expertise. Other respondents work to include board members who can balance ethnicity, gender and religion, or improve staff representation.

Figure 3 - Composition of Boards



**How are Board Members attracted and identified?**

Attracting and identifying new board members should follow a proactive and structured process. There is a role for an audit of skills required. One aim should be to achieve equilibrium between members who are organisational experts, and those who have proven skills in governance.

A majority - 68% - of respondents find new board members using word of mouth or shoulder tapping. 32% use their own communications, such as newsletters, to attract candidates. This reliance on informal and internal pathways can be either good or bad, depending on how it is approached. If an orderly, professional approach is followed, then internal methods can be effective. However, they may run the risk of lacking transparency, they may be

overly casual and reactive and they can limit board membership to those already known to the organisation.

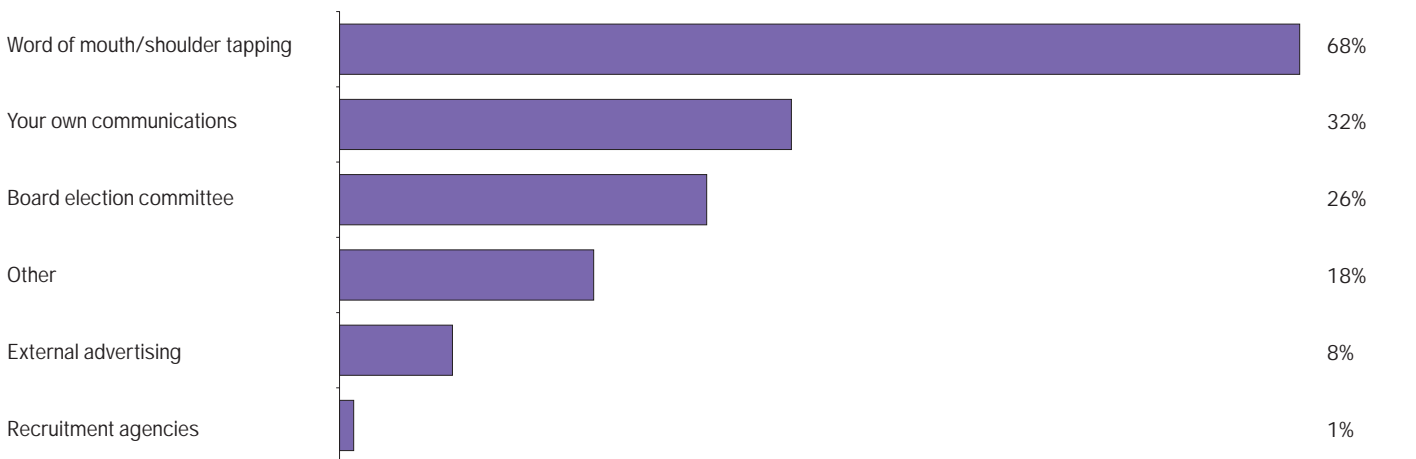
26% use board election committees. These respondents are being proactive about identifying board members. However, care does need to be taken to ensure election committees operate transparently, avoid bias and do not constrict the potential candidate intake.

Only 8% of respondents advertise externally, whilst just 1% employ recruitment agencies to attract new board members. Yet these methods have the advantage of widening the net for potential candidates. They allow for the inclusion of people who bring external perspectives and may have expert governance skills. The calibre of board members throughout the sector could be lifted if these methods were used more

frequently. However, they do demand greater resources in terms of cost and the effort needed to assess the suitability of candidates who may be hitherto unknown to organisations.

18% of respondents employ methods other than those discussed above to attract board members. Election of members at branch, regional and national level is common. Some Not for Profits receive nominations from Government sources. Several respondents also consult the Institute of Directors, which can be an efficient way of identifying candidates experienced in governance.

Figure 4 - How do you attract and/or identify new Board members?



**Concerns about Board Members**

As in 2003, respondents were asked whether they have concerns about their board members. The feedback received again highlights the difficulties which many Not for Profits face in securing skilled board members.

Concern about the mix of board members has increased sharply, with 34% of respondents rating this compared to 21% in 2003. This may reflect the high representation on boards from regions, members and stakeholders. It raises the question of

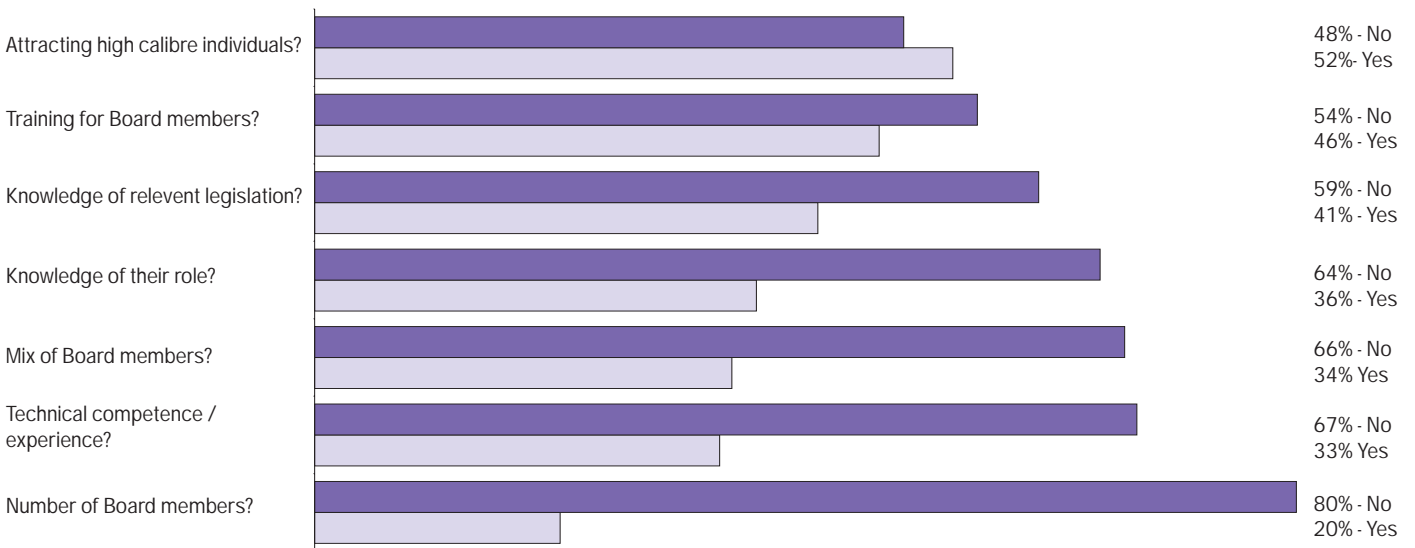
whether it is time for some Not for Profits to overhaul the sources used to find board members, even though this may require amendment of constitutions or statutory regulations. Concern about the mix could also be linked to problems in the ways in which board members relate between themselves, or with their CEOs and staff, or with stakeholders.

An increased proportion of respondents - 46% - are concerned about training for board members. This compares to 39% in 2003. It may be that, when funds are limited, spending on boards is

considered a low priority. Voluntary part-time board members may also lack the time or inclination to undertake training.

Other current causes of concern include 41% who think their boards have insufficient knowledge of relevant legislation, 36% who worry their boards lack thorough knowledge of their role and 33% who consider their boards have inadequate technical competence and experience.

Figure 5 - Do you have any concerns over the role of your Board members in the following areas:



**Frequency of Board Meetings**

71% of respondents hold board meetings between five and twelve times per year, that is they meet bimonthly or monthly.

However, a sizeable proportion of boards - 19% - meet on four or less occasions per year, raising queries about how much directional input they can provide when they meet so infrequently.

It can be difficult to strike a balance between meeting sufficiently often to achieve meaningful results, whilst still avoiding imposing excessive time pressures on members. Time pressures will be even more of an issue for the 90% of respondents who said their board members are expected to meet at other times outside the regular board meeting schedule. This would especially affect the 11% who hold eleven or more of

these extra meetings each year. We were unprepared for the high number of extra meetings which need to be attended. There may be greater work involved in being a board member than many candidates expect. This could impact on willingness to stand for boards and lengths of tenure.

Figure 6 - How many meetings does the Board have a year?

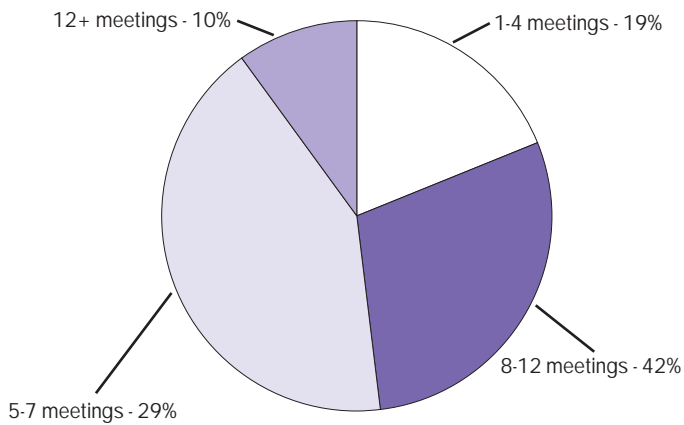
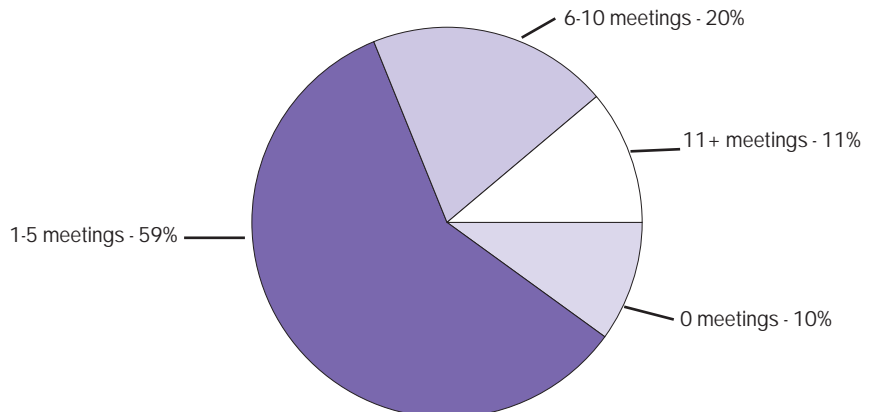


Figure 7 - How many meetings in addition to Board meetings do Board members attend a year?

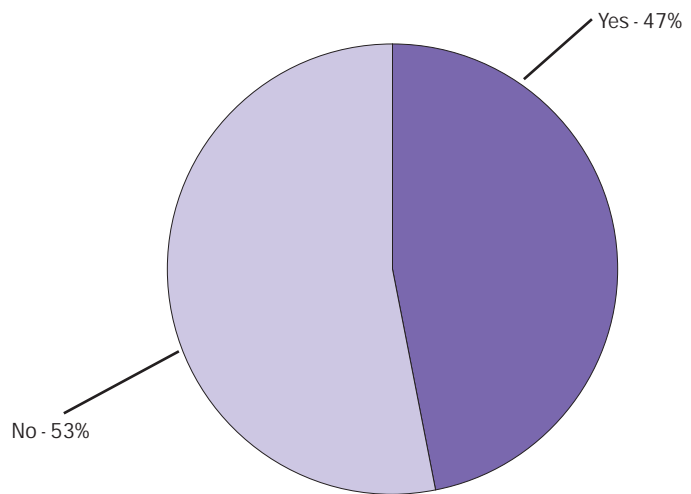


**Board Only Time**

Less than half of those surveyed make use of board only time (i.e. time when no paid employees are present). This is surprising. Without board only time it can be difficult to hold frank discussions about confidential issues, such as staff and board performance and pay. Shyer board members, or those with limited operational experience, may also contribute more actively during board only time, when they are not constrained by the presence of articulate, expert staff.

Board only time may be viewed by some as a source of tension between boards and staff, and may be avoided as a result. However, it is our view that board only time should be a standard agenda item at least every quarter. If it is provided for regularly, it is less likely to be viewed suspiciously by all concerned.

Figure 8 - Do you have "Board only time" at meetings?

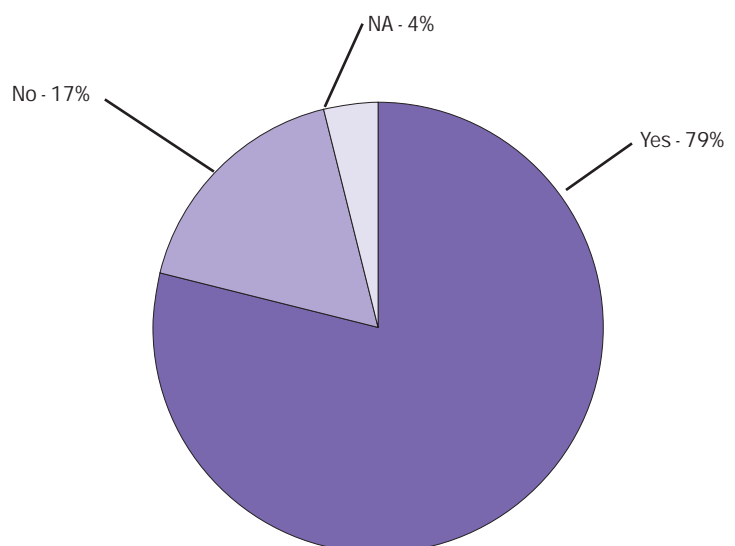


**Board Policies**

One area where most Not for Profit boards are performing well is in complying with their own policies, with 79% of those surveyed doing so.

Policies give direction to a board and help prioritise tasks. Policies also help ensure that both board and staff understand their responsibilities and expectations. It is therefore still troubling that, although in the minority, 17% of respondents do operate boards which fail to comply with their own policies. If a board is not prepared to ensure that it complies with its own policies, what message does this send to the rest of the organisation?

Figure 9 - Does your Board ensure it complies with its own policies?



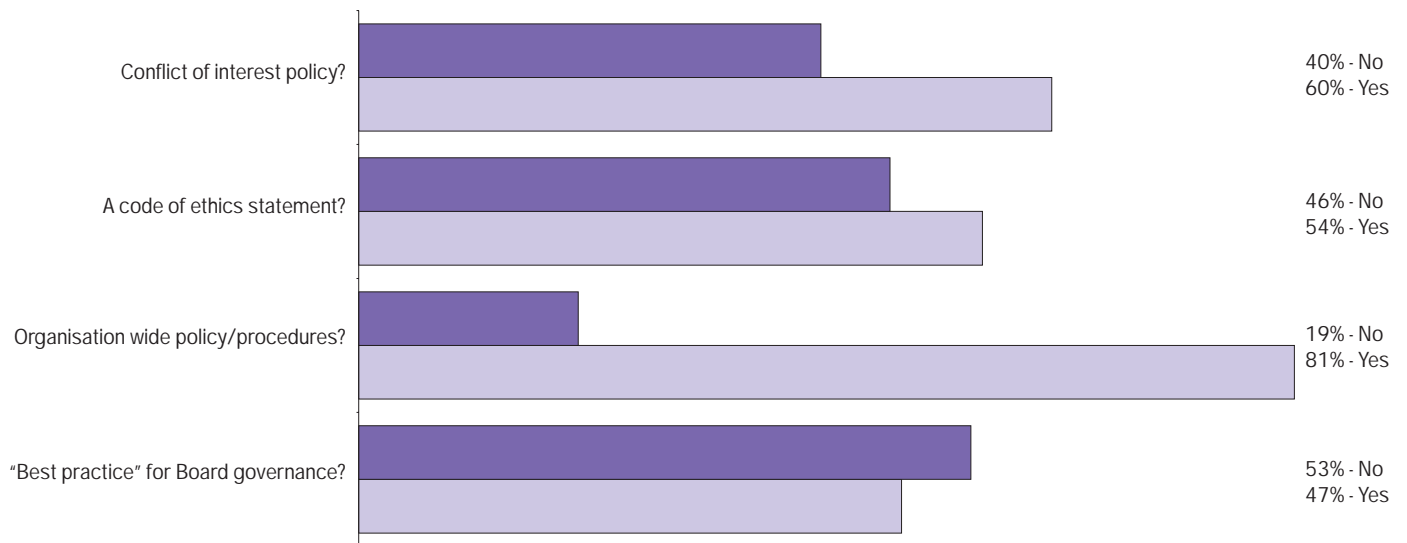
**Documentation of Policies**

Respondents were asked to indicate the types of governance documentation which their organisations maintain. Organisation wide policy and procedures are found frequently, with 81% maintaining these. However, other types of documentation are less common.

Why is documentation important? It assists new people appointed both to boards and staff to come up to speed quickly with best organisational practice. It also engenders confidence amongst staff and stakeholders that the board, and the organisation in general, is operating professionally and is accountable.

Whilst most boards comply with their own policies, it is worrying that many of these policies may only be documented partially, or not documented at all. Almost half of respondents do not have a code of ethics statement. 40% do not document conflict of interest policy, which may be particularly significant if these are boards on which stakeholders are represented. In addition, more than half do not have "best practice" for governance documentation.

Figure 10 - Do you have:



**Annual Work Plans**

It is a healthy sign that 71% of respondents operate boards that develop annual work plans outlining major events and duties for the year ahead. This should ensure that most boards are well focused, proactive and can work towards successful annual operations. Annual work plans also provide a useful measurement tool when evaluating board performance.

**Succession Issues**

A majority of Not for Profits recognise the importance of considering board succession issues. 69% of respondents keep a watching brief on succession. This should help them anticipate and manage risks. These could include the loss of a particularly able Chair or other board member, multiple retirements in a short time or, at the other end of the scale, too many long serving members with diminishing enthusiasm. Anticipating succession issues may, in the long term, help ameliorate some of the concerns expressed about the mix and calibre of board members.

**Evaluation of Board Performance**

Many Not for Profits are lacking when it comes to evaluating board performance. Only 44% of boards surveyed evaluate their performance on a regular basis.

How a board operates is critical to the flavour and success of any Not for Profit organisation. Performance evaluation can enhance the contributions of both individual members and the board as a whole. It helps boards be seen to be operating transparently, free from

negative connotations of "old boy/girl networks". Many boards would not hesitate to review their staff, so why not apply the same principles to evaluating their own performance?

Reluctance to review performance may, in some cases, be due to board members considering that their re-election or reappointment process already provides a measure of achievement. Other candidates may feel threatened by facing a review, with the result that they are less willing to stand or re-stand. Some may be reluctant to evaluate their peers, whom they may consider are already demonstrating their dedication by giving up time, often on a voluntary basis, to serve. Other boards may simply be too bogged down with ordinary business to put time into charting their performance. Using an external party to review board performance may overcome some of these barriers, although this may have cost implications.

Figure 11 - Does your Board have an annual work plan?

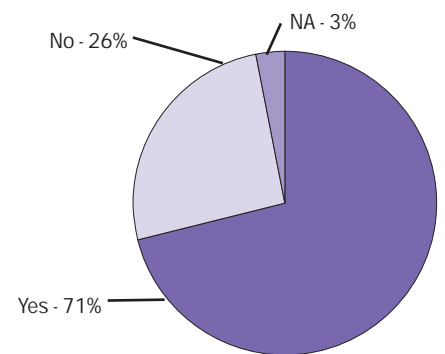


Figure 12 - Does your Board regularly evaluate its own performance?

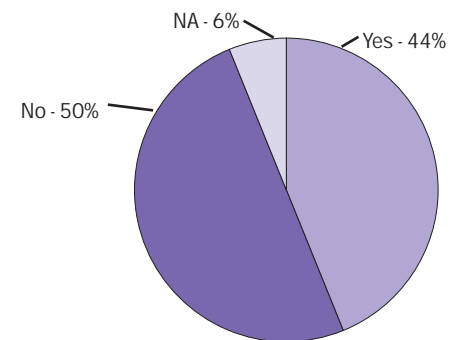
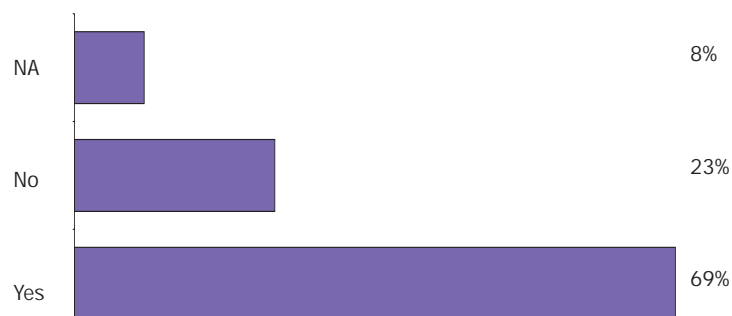


Figure 13 - Does the Board consider succession issues?



**Audit Committees**

In 2003, two-thirds of respondents operated audit or finance committees. However this year the proportion has fallen sharply to 38%.

Why the drop in the popularity of audit committees? Possibly, two years ago, it was simply a popular trend to have an audit committee. Boards may now be choosing to manage their financial responsibilities themselves, rather than delegating. It may also be that some audit committees were established without adequate terms of reference and understanding as to why they were needed, leading to confusion. This is supported by our finding this year that 44% of existing audit committees do not have terms of reference.

Figure 14 - Do you have an audit committee?

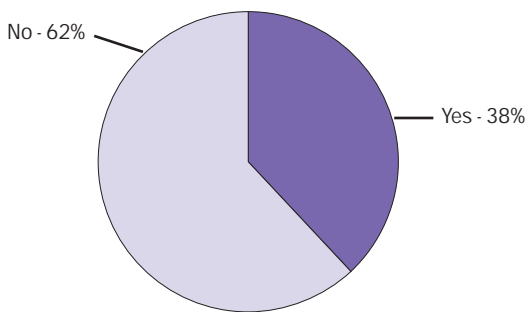
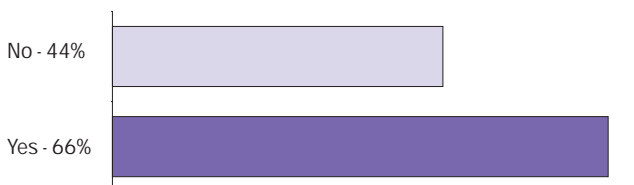


Figure 15 - Does your audit committee have terms of reference?



**Remuneration of Board Members**

Over a third of respondents - 36% - remunerate at least one of their board members. This is a large increase from 2003, when only 24% of respondents paid their boards.

It should be noted that some remuneration is only at nominal levels, possibly to assist with travel or attendance costs, with 26% of respondents offering a fee level per individual of no more than \$1000 per annum. Chairpersons are usually remunerated at higher levels than other board members and, in some cases, are the only board members to be paid. In 84% of cases, remuneration has also not been increased in the past year.

Figure 16 - Are Board members remunerated?

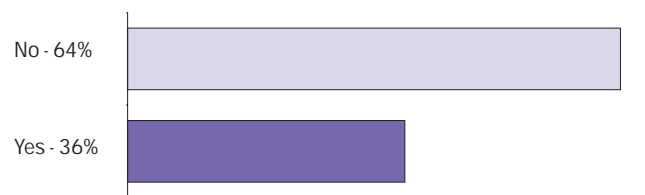


Figure 17 - Is your Chair remunerated?



The trend towards remuneration may be a response to the problems faced when trying to attract skilled, high calibre board members. Remuneration can expand the potential pool of candidates. This is especially amongst those who may need to take time off from their usual work to serve on boards. However, some Not for Profits may face barriers to board remuneration, including ethical and funding constraints.

It still needs to be stressed that the majority of Not for Profit boards provide their services on a voluntary basis, emphasising the huge commitment which volunteers make to the governance of the sector.

# Trends in the use of financial statements and non-financial reporting

Financial statements and non-financial reporting provide the road map to the results of any organisation. However, for the Not for Profit sector, they are more than just measures of bottom line profit. They not only provide a gauge of financial viability, but they also enhance the analysis of projects and activities. As much funding in the sector is tagged for specific projects, it is important to use efficient systems to measure project success and ensure related income is matched to expenditure.

## The Timeliness of Financial Information

The Not for Profit sector achieves high standards when it comes to producing timely financial information. 91% of respondents generate financial information within four weeks of month

end. This ensures they can react promptly to new developments and measure project outcomes on a continuous basis. It should reassure external stakeholders and donors that good financial management practices are in place.

9% of respondents produce financial information less regularly, in some cases only quarterly or annually. This is often because their boards meet infrequently, although the governance timetable should not be the sole guiding factor in the production of financials. For others, less frequent reporting may reflect scarce resources. Leaving long intervals between reporting may expose these organisations to undue financial risk.

## Financial Budgets and Forecasts

76% of respondents produce financial budgets or forecasts which look out only for a period of up to twelve months. Yet ideally, financial budgets and forecasts should look out at least two years to give greater certainty, to enhance forward planning and to reassure stakeholders who provide funding or contracts for longer than just twelve months.

The focus on short term planning may be a reaction to the often uncertain and renewable nature of Not for Profit funding. In some cases, it may be because of scarce resources or limited financial knowledge. It could also reflect expectations that key board members, such as the Chair, will change on a regular basis and bring different emphases to bear.

Figure 18 - When is financial information generated?

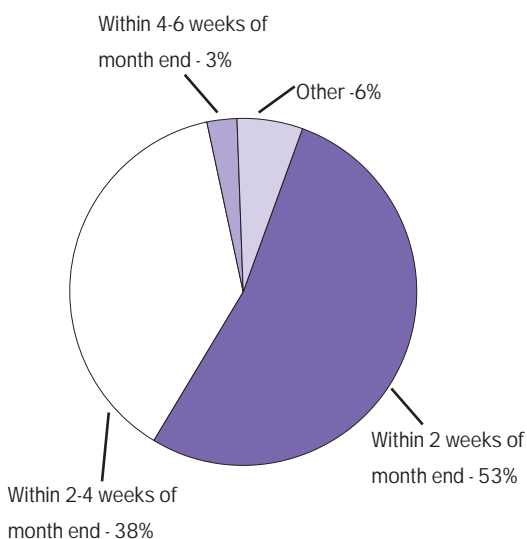


Figure 19 - Period covered by budget/forecasts:



### Internal Financial Controls

A healthy 71% of those surveyed review their internal financial controls regularly. 72% document these controls.

However, although they are in the minority, it is still a concern that over a quarter of respondents have not reviewed their internal financial controls in the past 24 months. As a result, they could be exposed to potential financial risk, such as fraud. In the light of recent accounting scandals, such as those relating to Enron or Worldcom, we expected the review of internal financial controls to be given higher priority. With ongoing change of personnel at board level, there is also a risk that over time internal controls can break down or be altered. This risk may be compounded by non-documentation, with 28% of respondents failing to document their internal controls. If records of internal financial controls are not maintained, it can be difficult to pass the baton to successors when key personnel leave.

Figure 20 - Have you evaluated your internal financial controls in the last 24 months?

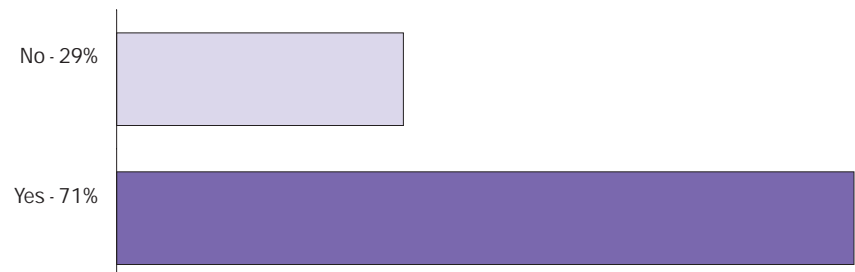
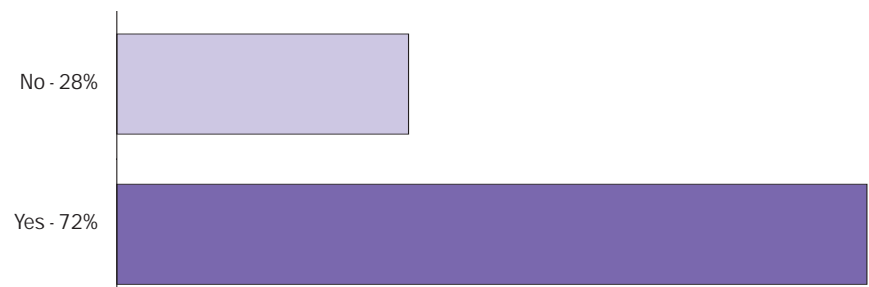


Figure 21 - Do you document internal controls?



### Non-Financial Information

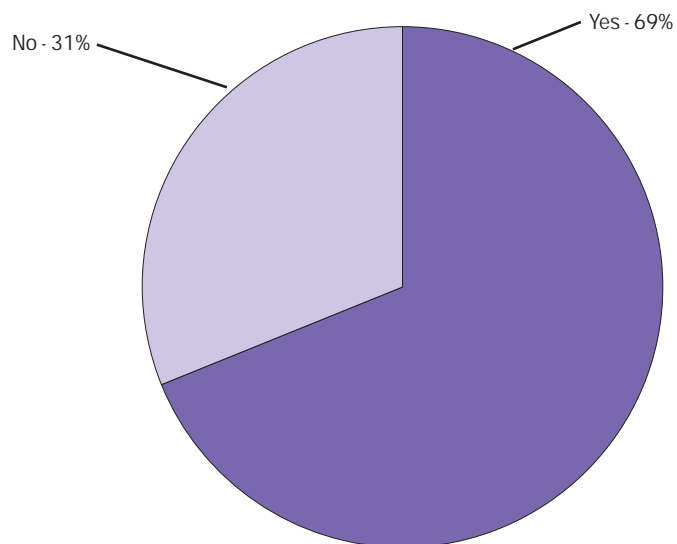
Over two-thirds of respondents prepare and evaluate some form of non-financial information. This high level of reporting is positive. It will assist organisations to focus on their core activities and to enhance relationships with stakeholders. Non-financial information is often also better able than straight financial data to measure and justify the intangible goals of Not for Profits. The high level of non-financial reporting will come at a cost, however, in terms of the time and other resources which it necessitates.

A wide range of non-financial information is prepared by respondents. Popular types include:

- measuring outputs, performances or achievements against strategic/business/ operational plans;
- key performance indicators;
- statistics related to service or activity delivery and performance, such as client numbers, user numbers, enquiry numbers, occupancy levels and similar;
- the performance and development of human resources, both staff and volunteers; and
- reporting on external trends, including social and environmental impacts, also political and economic developments.

Other creative forms of non-financial reporting include statistics on website use, complaint numbers, analysis of media coverage, and measuring board visibility and recognition.

Figure 22 - Do you prepare and evaluate non-financial information?



**Reporting to Stakeholders**

Not for Profit organisations are often set apart from the corporate sector by the many different masters, or stakeholders, to whom they are accountable. This is illustrated graphically by our survey, which found that 37% of respondents have to juggle four or more key stakeholders. The challenge for these respondents is to prioritise their most important stakeholders, and to then devote enough resources to communicating effectively with them and to satisfying their reporting requirements.

Who are the key stakeholders in the Not for Profit sector? Members emerge as the most common type, with 74% of respondents identifying members as key stakeholders. Other leading stakeholders include the Government which was named by 41%, funders named by 40% and employees or volunteers identified by 37%.

Most respondents are required to report to their often numerous stakeholders on a regular basis. Commonly, the reporting cycle is annual. However over a quarter of respondents have to report to stakeholders at least every three months and 13% bear the burden of reporting each month. This shows the high volume of resources which go into liaising with stakeholders, from the board member level right through to the volunteers on the ground.

Figure 23 - Who are your key stakeholders?

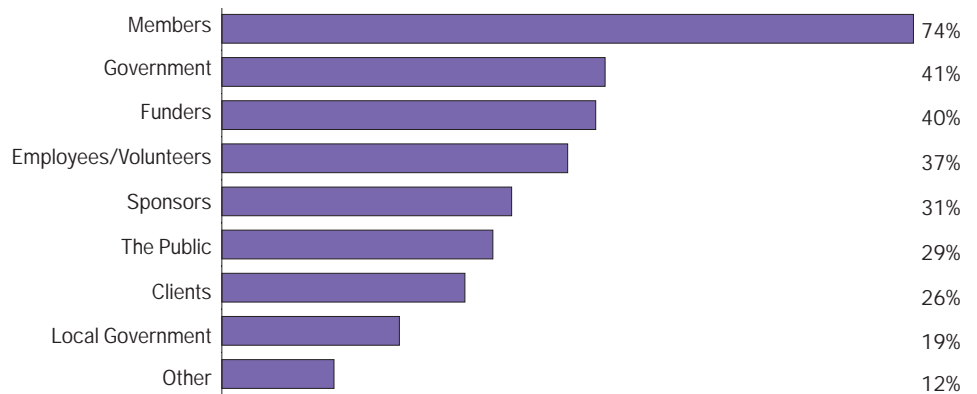


Figure 24 - Do your funding (or other) circumstances require the circulation of financial and non-financial reports to stakeholders?

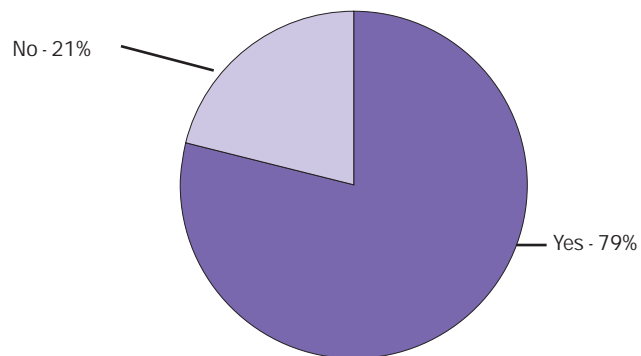
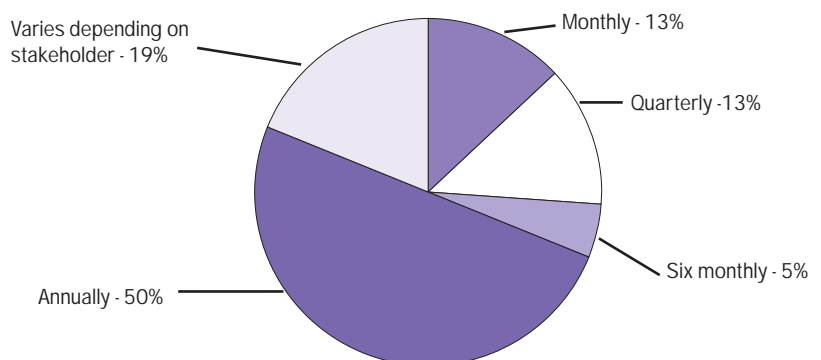


Figure 25 - How often do you circulate financial and non financial reports to stakeholders?



**Income Levels Within the Not for Profit Sector**

Over half of respondents are concerned about the sustainability of their key income source(s). This comes as no surprise, given that financing and fundraising have emerged as the two most significant issues for the sector in both 2003 and 2005.

However, in reality, most Not for Profits are maintaining their incomes at reasonable levels. In the last 12 months, 57% of respondents have experienced increased income levels. A majority also expect to see a rise in income in the next

year. Only 14% have suffered decreased income levels during the past 12 months, and just 10% are forecasting a decline in the coming year.

This suggests that Not for Profits are imaginative and determined when discovering and tapping into income sources. Well focused on the need to raise income, many are successfully developing innovative ideas and projects to capture funding. Most would be appearing to cope with the substantial effort that goes into reapplying constantly for funding, and the lack of guarantee that many income sources will

be renewed year on year.

In the event that income levels do come under threat, Not for Profits are giving thought to how they can balance the books. More than half of respondents are prepared to consider controlling costs, reducing programmes and activities, arranging alternative sources of income and utilising reserves from within their organisations. Clearly, Not for Profits are prepared to demonstrate characteristic flexibility to guarantee their financial survival.

Figure 26 - Are you concerned about sustainability of income?

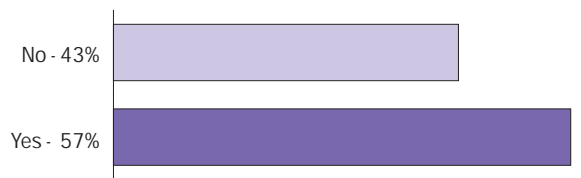


Figure 27 - What measures do you take if income is insufficient?

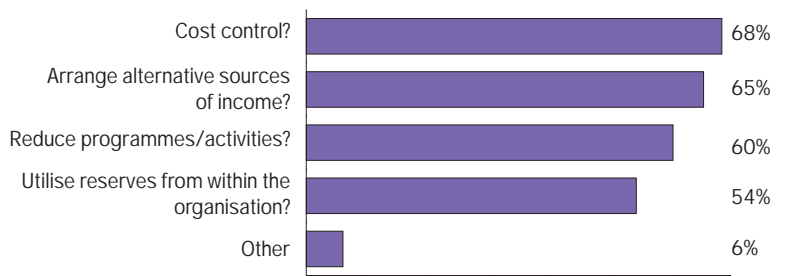


Figure 28 - Income levels in last 12 months

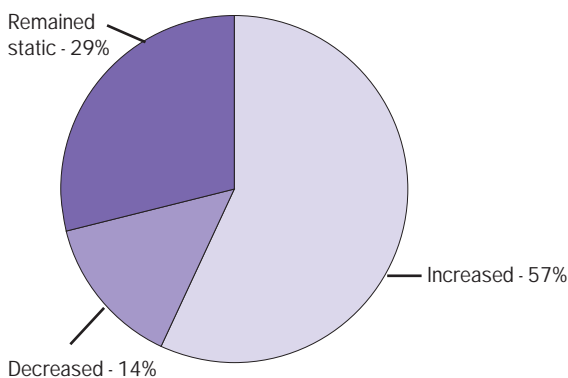
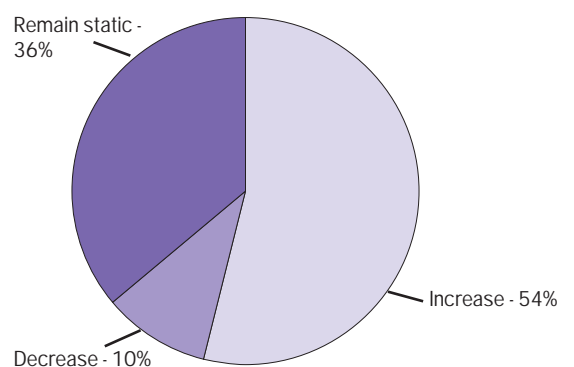


Figure 29 - Income levels in next 12 months



## Risk management planning

Risk management involves identifying and managing internal and external threats.

Not for Profits, like other organisations, are exposed to many risks which have the potential to impact seriously on their core objectives. Examples include fluctuating economic conditions such as interest rate movements or rising fuel costs; political change; natural disaster; epidemics; fire; loss of key personnel; the loss of major funders and IT failure. No Not for Profit organisation can be immune to all such risks.

It is therefore a source of concern that nearly half of respondents - 48% - do not undertake periodic risk profile assessments. These Not for Profits will be highly vulnerable to risks over which they have little or no control.

On the positive side, those that do undertake risk profile assessments review them frequently. 91% of respondents with risk profile assessments check them at least every 24 months, to ensure they still reflect key threats.

However, even amongst those planning for risk, there are major gaps. For example, only 22% of respondents plan for fraud. Yet fraud does happen and we see instances of it in our work with Not for Profits. Fraud needs to stop being a taboo subject because, by being knowledgeable and prepared, Not for Profits will be better able to mitigate losses if they occur.

Another risk overlooked by many is the loss of key personnel. Only 33% of respondents undertake contingency planning for the loss of staff. Yet many Not for Profits are highly dependent on a small number of dedicated staff and/or board members. One way of countering this risk is to take out insurance on key people, as this can enable organisations to remain viable should illness or disaster befall the CEO or Chair. However, only 12% of Not for Profits have this type of insurance in place.

Given that we operate in a country prone to earthquakes, floods and other natural disasters, it is also surprising that less than half of respondents - just 45% - have worst case scenario planning in

place in case of disaster.

Meanwhile, less than half of respondents plan for adverse media attention, although this can leave reputations vulnerable to attack and damage relationships with funders and stakeholders.

IT failure, whilst possibly a more straightforward risk to manage, is also only planned for by 52% of respondents.

These results suggest that many Not for Profits need to lift their game when it comes to addressing how their operations will survive should they face the major problems to which every organisation is vulnerable. Without adequate planning, many Not for Profits can at best only expect to be reactive, rather than proactive, to crises.

Figure 30 - Does your organisation undertake a risk profile assessment?

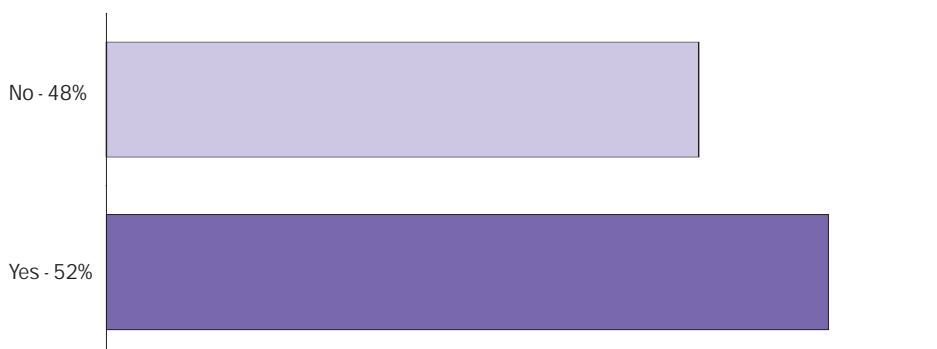


Figure 31 - If you do have a risk profile assessment, how often do you check it is accurate?

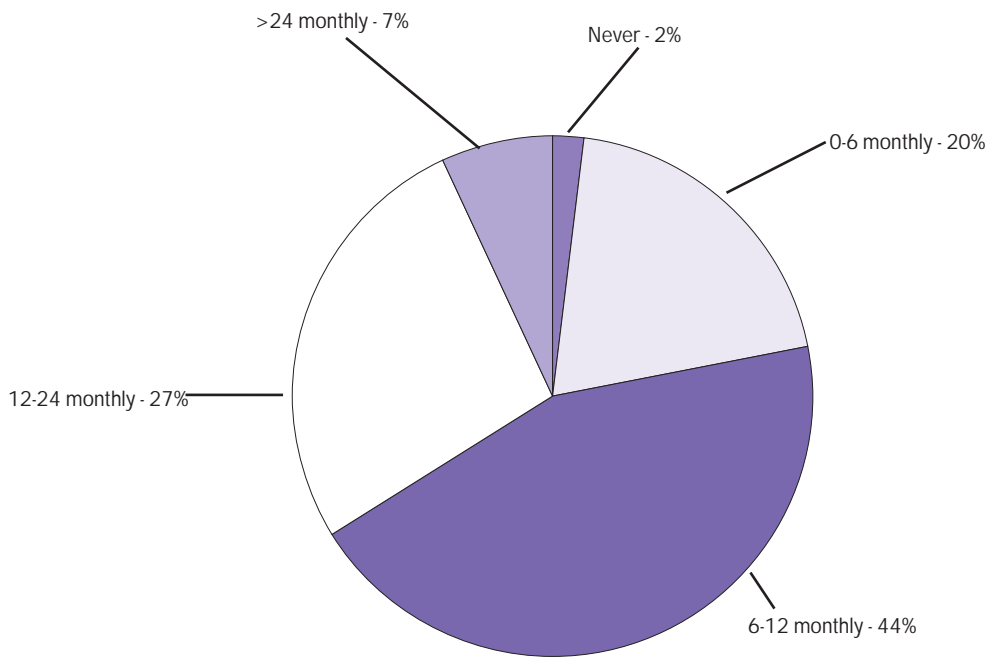
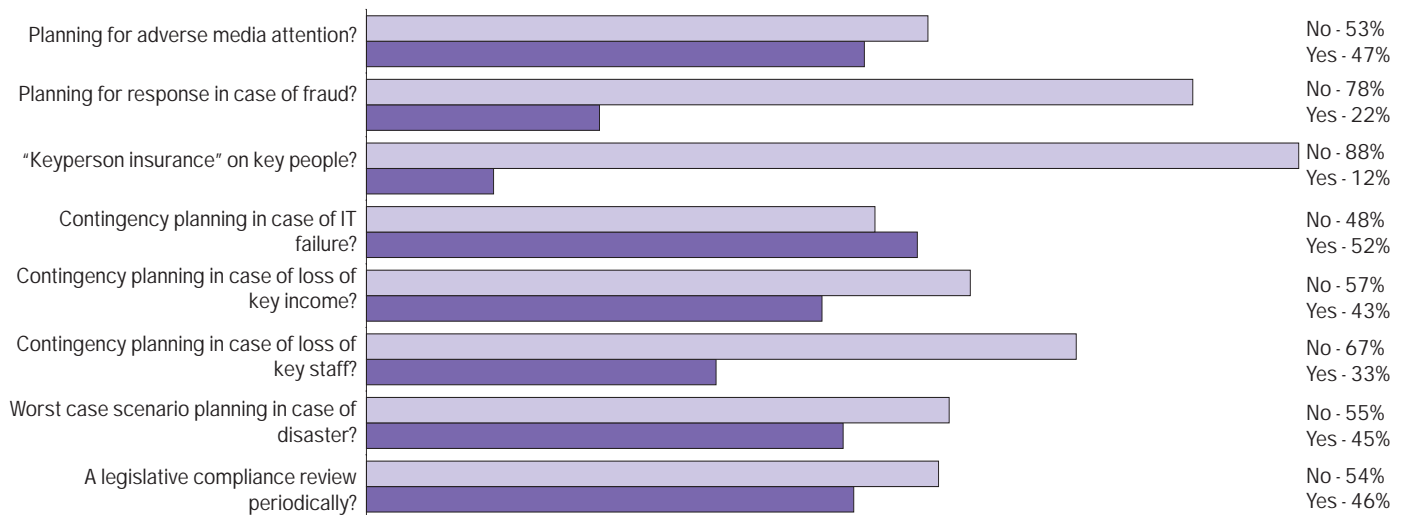


Figure 32 - Does your organisation undertake:



## Perceptions of the Charities Act and Charities Commission

The Charities Act was passed in April 2005 and the Charities Commission came into existence on 1 July 2005.

Our survey gauged opinion about the Charities Commission and the process which led to its formation(4). The emerging results reveal that the Charities Commission has a major task ahead, if it is to win widespread confidence throughout the Not for Profit sector.

Lingering doubts exist about the way in which the legislation was generated. Only 40% of respondents are convinced there was sufficient public discussion about the Charities Act. Only 44% agree there was ample opportunity for submissions.

There is a high level of uncertainty about the impact which the Charities Act will have on the sector, with 52% of

respondents uncertain if it will assist. Another 21% go further and believe the Act will be unhelpful. In addition, whilst just over half of respondents believe they understand the implications of the Act for their organisations; this still leaves 38% who are uncertain and another 11% who admit to being confused about the Act.

Figure 33 - There has been sufficient opportunity for submissions on the Act?

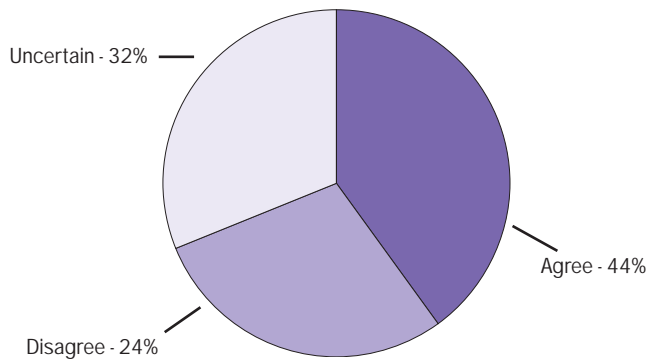


Figure 34 - There was sufficient public discussion of the Charities Act?

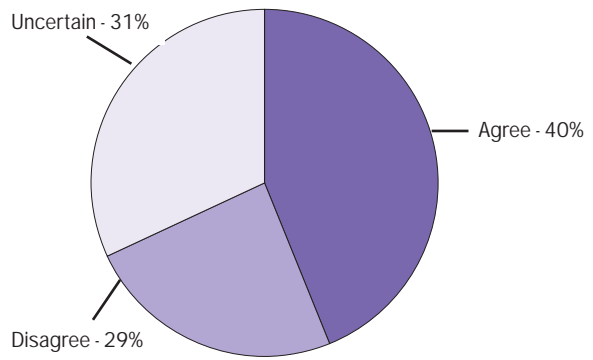


Figure 35 - Your organisation understands the implications of the Act?

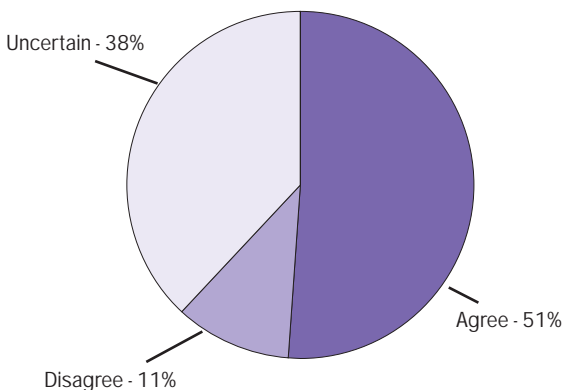
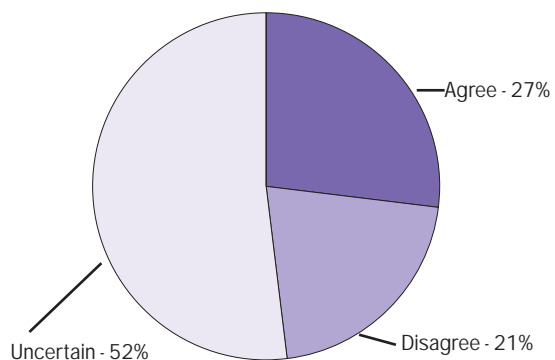


Figure 36 - The Charities Act will be helpful for your sector?



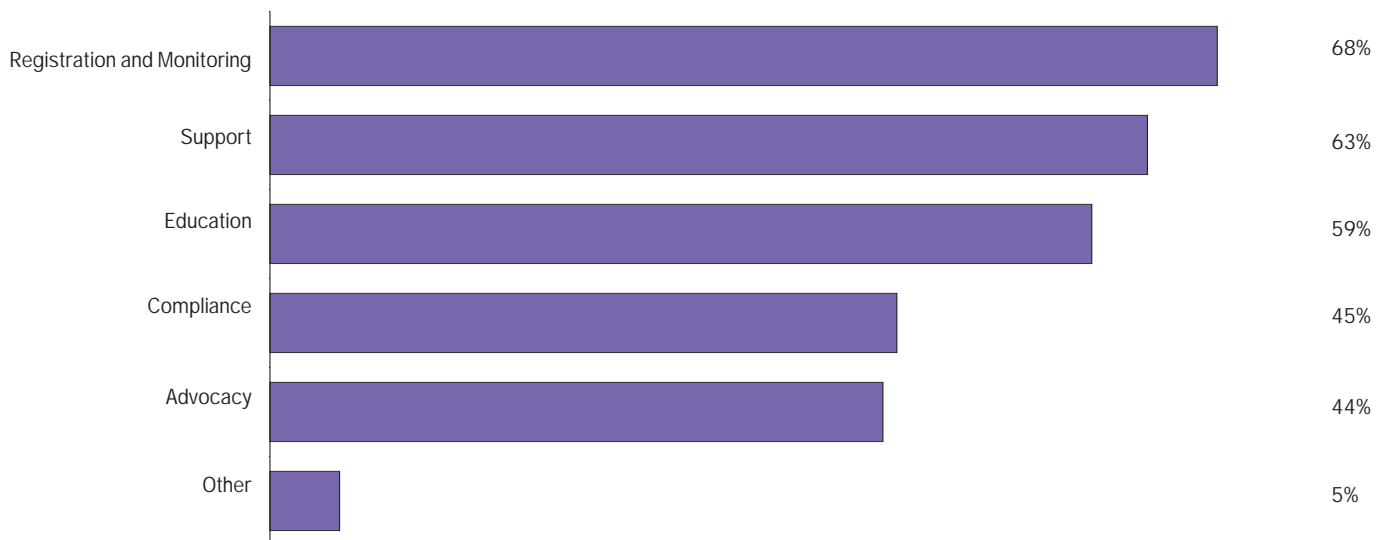
(4). Some participants in our survey are not affected by the Charities Act, and had the option of marking the questions about the Act as Not Applicable.

Most respondents agree that the Charities Commission should assume a broad range of responsibilities. 68% consider it has a role in registration and monitoring, 63% would like it to support the sector and 59% agree it should help with education. However, less than half want it to have key roles in advocacy or compliance. Some respondents offered other suggestions as to what the Charities Commission should do. These include undertaking research and development, providing policy advice to Government and approaching key stakeholders on behalf of charities.

In going about its business, the New Zealand Charities Commission could consider the example of its United Kingdom counterpart, which also has broad functions. The Grant Thornton UK 2004 Charity Survey found that UK charities have a very positive outlook towards their Charities Commission (5). Over half of UK respondents had consulted it during the year prior to the survey. Of these, 76% rated the service received as good or excellent and only 5% thought it poor.

The New Zealand Charities Commission now needs to put determined effort into turning around opinion within the Not for Profit sector. It needs to disseminate information rapidly to remove the prevailing uncertainty about how it will operate and what it really means for those affected.

Figure 37 - Your organisation thinks the key roles of the Charities Commission should be:



(5). Grant Thornton UK LLP (2004) Grant Thornton 2004 Charity Survey. London, Grant Thornton.

## The survey methodology

The Grant Thornton 2005 Not for Profit Survey built on our earlier survey, undertaken in 2003. It repeated some questions to check if opinion had changed. These related to the most significant issues challenging the sector, concerns about board members and board remuneration. The 2005 survey also focused in more detail on topical issues, which were highlighted as being of importance in our earlier survey. These included governance, financial information, risk management and the Charities Act.

Most questions were multi-choice, with opportunity to provide written comment where relevant.

Respondents had the choice of remaining anonymous, or of supplying identifying information. All identifying information provided has been respected as confidential.

Questionnaires were sent by post or email to 1398 Not for Profit organisations. A questionnaire was also available on the Grant Thornton website. We are delighted with the high rate of participation, with 382 completed

surveys received, which far exceeds the average response for postal surveys in New Zealand. We thank the many who gave their time to participate. The results are all the more meaningful, because they represent a sizeable proportion of the Not for Profit sector.

Most participants are either incorporated societies or charities, but we also received completed surveys from government agencies, unincorporated bodies and other types of Not for Profits. Entities of all sizes responded. Over two thirds of respondents have employee and/or volunteer numbers of between 0 and 50 but, at the other end of the scale, 10% have over 500 employees and/or volunteers. The nature of the activities pursued by respondents is varied. They include accommodation, advocacy, agriculture, animal protection and welfare, the arts, broadcasting, budgeting, building management, business support, child care, conservation, culture, economic development, education, employment, energy, environment, events management, finance, funding agencies, genealogy, general good, health and welfare, heritage preservation,

horticulture, housing, industry training, information, information technology, investment, iwis, local government, Maori service providers, membership/trade institutions and associations, relief of poverty, religion, rescue services, research, residential care/support, social services, sports and physical activities, tourism, unions and youth development. Our participants are representative of the very diverse nature of New Zealand's Not for Profit Sector.

### Charitable Donation

Grant Thornton pledged a \$500 donation to the Association of Staff in Tertiary Education at the request of Sharn Riggs, the winner of the draw open to all respondents who returned completed questionnaires by 1 August 2005.

### Researcher

Research undertaken and written by Jennie Taylor June/September 2005.

## About Grant Thornton

Grant Thornton has a dedicated Not for Profit team working to help your organisation help others. We know your issues. We understand your needs.

We offer an array of financial, business management and operational services designed to assist you. These include:

- Audit and tax services based on an understanding of the specific compliance and regulatory issues confronting Not for Profits.
- Financial planning and analysis, including budget process improvement, financial reporting and activity-based cost analysis.
- Organisational and management consulting, including strategic organisational assessment and redesign to help your organisation adapt its current structure to its evolving mission.
- Strategic management planning and market positioning to assess your position in the marketplace and to evaluate, facilitate and help implement appropriate strategic responses.
- Advice on governance structure to help your board clarify your organisation's mission and the board's role in achieving it.
- Risk management services including business and personal risk reviews, investment planning and workplace insurance.
- Information technology services.
- Merger and acquisition services from due diligence through to post-acquisition and consolidation.
- Compensation and benefits consulting to help you attract and retain employees whilst minimising costs to your organisation.
- Training for business issues and risks impacting on Not for Profits.

### Why Grant Thornton?

Serving the Not for Profit sector is a core focus in our firm. A selection of our committed partners and managers have spent a significant part of their careers working with, and for, Not for Profit organisations. We understand the complex challenges you face and have the know-how to help you innovate for

the future. We constantly monitor trends within the Not for Profit sector, as well as the broader competitive environment, to develop services that meet your needs.

Choose us and experience first-hand:

- Personal attention from partners and managers.
- Services tailored to meet your needs.
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- Technical competency and attention to detail.
- Realistic goals with implementable solutions.
- Timely information including alerts, regulatory updates and surveys.
- Realistic fees.

If you want to learn more about how Grant Thornton can assist your organisation, please contact our regional specialist partners.

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