In 2002 research by The Australian Centre of Philanthropy and Nonprofit Studies and School of Accountancy found that government departments required not-for-profit (NFP) organisations who received government funding to report on their grant funding in varying formats. Reporting requirements used overlapping and confused accounting terminology. As a result, NFP organisations which received grants from more than one government source had to translate information from its chart of accounts to the specified government formats at significant cost and with a greater chance of error. Not only were the compliance costs of this process substantial for organisations, they also resulted in a lack of comparability between departmental programs.

Inconsistent definitions

A study of Queensland government departments found a total of 129 different revenue line items and 836 different expense line items in the departments' forms or instruction documents. Differences occurred both in the line descriptions and in the accounting treatment for the same types of expenses. The major variations occurred around the material expense item for labour costs.

Analysis revealed a total of 113 different line descriptions in the documents that related to direct labour costs. For example, the expenses category departments included different items under salaries. For some departments, 'salaries' covered salaries only, while others included salaries and direct on-costs. For other departments, 'wages and salaries' also included 'costs of employment', such as 'staff training' and 'protective clothing'. In addition, other departments included staff transport; while some required workers compensation insurance to be treated as a salary and wages on-cost, instead of aggregating this with general insurance.

Since a NFP organisation's accounting system is designed to capture financial transactions just once, an imposed requirement to report similar transactions in incompatible ways means that NFP organisations often have to manually recalculate financial transactions, thus adding significantly to their costs of compliance. Often in medium-sized organisations, a finance clerk was allocated to completing such government return translations on a full-time basis.

Government administration also suffers as there is an inability to aggregate and compare financial data for purposes such as public policy development, benchmarking of performance and indications of financial effectiveness or efficiency as the definitions of the base data are not the same.

Standardisation between departments

By working with government departments and the NFP sector since 2002, the project team has devised and implemented standard taxonomies for charts of accounts in Queensland, New South Wales, Victoria and Western Australia, known as the QUT Standard Chart of Accounts (SCOA).

The development of agreed standard reporting definitions and a taxonomy or data dictionary (which government funders exclusively use in their transactions with the sector; for example, grant applications, acquittals and reporting) radically streamlines administrative process and slashes compliance costs. For the full benefits to be realised, the standardisation depends on departments having the discipline in place to request only information specified in the SCOA.

SCOAs for Queensland, New South Wales, Victoria and Western Australia are now freely available from The Australian Centre for Philanthropy and Nonprofit Studies wiki. This includes value-adding material such as:
- template data file accounts for free download over the Internet in Microsoft Excel, MYOB and Quick Books
- streamed on demand video of conversion instructions to the SCOA and best practice bookkeeping for volunteer treasurers and bookkeepers
News and Views

- step-by-step downloadable manuals for MYOB, Quick Books and other accounting packages on implementing the SCOA and best practice bookkeeping and
- an email discussion group for NFP treasurers, accountants and bookkeepers as well as FAQs and 'ask the expert' email service.

The SCOAs developed to date have needed to be slightly different for Queensland, New South Wales and Western Australia in that there are different state-based legislative requirements. For example, gaming and fundraising are defined by state-based legislation and the requirements are slightly different in each state. While a SCOA accommodates and defines these activities, they are slightly different in implementation at a local level. The SCOAs have been aligned and improved with new information, clarification and examples for inclusion and exclusion with each state's working groups. Even though the Australian Accounting Standards Board has transaction and sector neutrality, the accounts have been cross-referenced with the relevant standards for ease of use.

With the implementation of the SCOA the anecdotal evidence is that:
- organisations have taken the opportunity when converting to the SCOA to upgrade their accounting systems (we discovered some organisations still using pre-GST accounting software) and come into line with generally accepted accounting protocols
- NFP organisations have revamped their financial reporting to boards and begun rudimentary benchmarking with like organisations now that they are using similar SCOAs
- organisations have invested in greater accounting staff training and financial literacy for staff and boards
- auditors have welcomed the standardisation which makes their task easier and contains otherwise rising audit costs
- implementation has resulted in greater portability of treasurers and bookkeepers, especially in rural communities
- SCOAs have been of great assistance for responding to government moves to introduce 'unit cost funding' by permitting more reliable analysis of actual unit costs of service delivery and benchmarking and
- although the initial intention is for small to medium-sized NFP organisations to use the new accounts, larger organisations are adapting their charts of accounts to reflect the same general structure and adopting the definitions. Typically, they have a wider variety of accounts due to their nature and size. However, the flexibility of such a tool as the SCOA is that organisations can add account sub-classes to accommodate their specific requirements without compromising the general intent or design of the tool.

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Implementation

After positive comments by NFP adopters, the Productivity Commission, Victorian State Services Authority, Victoria's Stronger Community Organisations Project, New South Wales and Queensland Auditors-General and Senate Economics Committee recommending adoption of the SCOA, the December 2009 Council of Australian Governments (COAG) meeting agreed that all Australian governments would implement an agreed national SCOA by 1 July 2010.

During 2010 all government funders plan to start to change over to the SCOA, freeing NFPs from millions of dollars in compliance costs and facilitating better data collection. The federal government has also indicated that it will integrate the SCOA into its Standard Business Reporting initiative which allows digital filing of common government forms direct from accounting packages.

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Note