



Family Relationship Services
A U S T R A L I A

18 December 2007

Ms Robyn Fleming
Branch Manager
Family Relationship Services Program Branch
Department of Families, Housing, Community Services & Indigenous Affairs (FaHCSIA)
PO Box 7788
Canberra Mail Centre, ACT 2600

Transmission via mail and email: Robyn.Fleming@facsia.gov.au

Dear Robyn,

Further to the various conversations that we have had lately regarding financial acquittal requirements for FRSP funded organisations, I am writing to clarify some of the issues raised by FRSA members. I have provided some background information on financial reporting requirements for non-profit organisations to contextualize these issues, please bear with me if this is unnecessary.

Non-profit Financial Reporting Requirements

All community sector non-profit organisations are required to prepare consolidated financial statements and undergo an annual independent audit conducted by a registered auditor. The members of the organisation appoint the auditor at the AGM. The Board of Directors or Management Committee prepares the financial statements; the auditor then interrogates the financial processes of the organisation and provides an opinion as to the accuracy of the financial statements and the overall financial status of the organisation. The auditor prepares a report that includes the financial statements and this is provided back to members at the next AGM (usually in the Annual Report).

Organisations that are Companies (limited by guarantee) are required to respond to the requirements of the *Corporations Act 2001* and must submit their financial and audit reports to the Australian Securities and Investment Commission (ASIC). The requirements are prescribed in the legislation, they include¹:

1. Balance Sheet as at the end of the year
2. Income statement at the end of the year
3. Statement of Cash Flows for the year
4. Statement of Changes in Equity/Statement of Recognised Income and Expense
5. Consolidated financial statement, if required by accounting standards
6. Notes to Financial Statements (disclosure required by the regulations, notes required by the accounting standards, and any other information necessary to give a true and fair view)
7. Directors' declaration (that the financial statements comply with accounting standards, give a true and fair view, there are reasonable grounds to believe the company/scheme/entity will be able to pay its debts, the financial statements have been made in accordance with the Act)
8. Directors' report, including the auditor's independence declaration
9. Auditor's report

¹ ASIC Fact Sheet – Financial Reporting, available from www.asic.gov.au accessed 12/12/07.

Organisations that are Incorporated Associations respond to State/Territory legislation. The reporting requirements are similar but slightly less onerous and reports are submitted to the relevant State/territory regulatory authority instead of ASIC.

Funding Acquittal Practices

Typically, across both Commonwealth and State/Territory Government funding bodies, the consolidated financial statements and audit report is the primary means by which the funding body determines that any organisation receiving funds has sound financial reporting processes and is financially stable. This essentially gives the funding body confidence that financial reports provided by the organisation are accurate, without needing an auditor's opinion on specific expenditure reports.

Some organisations include acquittal statements against government funding contracts in the financial statements that are provided to the auditor. The auditor may then include a statement in the audit report relating to the acquittal reports. An acquittal report usually consists of an income and expenditure statement and may be based on a prescribed template provided by the relevant funding body. The more acquittal statements required by the funding bodies, the higher the cost of the audit. An audit report on each acquittal can vary from \$300 - \$1200 depending on the amount of funding and complexity in the report.

More recently, organisations have received requests from funding bodies (including FaHCSIA) to provide audited financial statements at a sub-program level. For example, to provide an income/expenditure report, balance sheet and audit report for one child care service operated by the organisation. This is a substantial increase in work load for the agency and the rationale is not clear. The purpose of a balance sheet in a set of consolidated financial statements is to allow the reader to assess the overall financial position of the organisation – total assets compared to total liabilities (solvency) and cash assets to liabilities (liquidity). The preparation of individual balance sheets per program does not add to the value of the financial reports as it would involve an arbitrary allocation of assets and liabilities across programs – indeed it could be misleading as any single program may be at risk due to a liability recorded against one of the other programs but this would not be apparent. It is also important to note that the audit cost for multiple sets of financial statements (one per funded service) will be substantially higher than for consolidated financial statements including a set of acquittal statements.

Acquittal Reports and Lack of Consistency

There appears to be considerable confusion amongst FRSP funded organisations regarding the nature of financial acquittal reports required for 2006-07. Most agencies would, by now, have submitted their audited financial statements due at the end of October. Some agencies have then been asked to provide additional reports. There appear to be two common scenarios:

1. The agency prepared standard financial statements for the auditor and submitted to FaHCSIA these statements and the audit report as well as acquittal statements (income/expenditure report) for each FRSP funded program.
2. The agency prepared standard financial statements and acquittal statements for each FRSP funded program for submission to the auditor, the audit report includes a statement on the acquittals which were then submitted to FaHCSIA.

In both cases it would appear that FaHCSIA appears to have accepted the reports from some agencies but advised others that this is insufficient. Some agencies have been directed to provide additional reports for sub-programs within a mixed schedule or service bundle (which they had treated as a single acquittal) for the 2006-07 financial year, others have been told that additional reporting requirements will be enforced for the 2007-08 and in at least one case, an agency has been advised that retrospective reports separating post separation counselling from early intervention counselling will be required.

FRSA has sought clarification on the financial acquittal requirements in an attempt to provide members with definitive advice on what is required for 2006-07 and 2007-08. We believe that the acquittal requirements should be the same for all services and that the requirements should be clearly articulated by FaHCSIA in advance.

Having the reporting requirements clarified in advance is important because it is not always possible to generate reports that are retrospectively accurate. For example, if the agency has set up financial systems to provide a single report for early intervention services, it may not be possible to retrospectively identify income such as client fees or expenses such as staff salaries as belonging to sub-programs within the early intervention bundle. An arbitrary split of income and costs across sub-programs can be produced but does not add to the quality of the information being provided. In other situations it would be more efficient to know in advance that separate reporting will be required. For example, it was not clear that the small amounts of funding for FRSP Online data entry would require separate acquittal and many organisations included this funding in acquittal reports for the service overall. Additional time will now be spent producing a new acquittal report and potentially re-doing the other report(s) already submitted. Clarity from the beginning would have avoided this.

FRSA believes that there would be value in developing a shared understanding of the needs of both program administrators and service managers. It should be possible to align the Department's needs with reporting mechanisms that are manageable within agencies. In particular, there are some specific issues that we would like to resolve collaboratively with the Department, these include:

Issue 1: Any increase in financial reporting and audit requirements should be clearly justified and add to the quality of reporting. If an independent audit concludes that an organisation's financial reporting processes are sound, further interrogation of more specific reports should be unnecessary.

Issue 2: If increased acquittal reports and audit opinions are required then agencies should have the opportunity to recalculate the cost of compliance and adjust the provisions they have made in the service budget.

Issue 3: Some efficiency may be gained if the template for FRSP funding acquittal statements provided by FaHCSIA was aligned to the international financial reporting standards prescribed by ASIC.

Issue 4: Financial acquittal requirements should be consistent across the FRSP and agreed in advance (ie when service agreements are negotiated). Any retrospective rulings should take into consideration the way in which financial systems have been structured.

To further illustrate the issues identified above I have attached some de-identified examples of situations reported by members in relation to financial acquittal to highlight the issues above. I appreciate your work to-date in responding to some of the issues that we have raised. I also thank you for your offer to assist to individual FRSA member agencies where there remains some uncertainty regarding acquittal requirements.

In closing I would like to assure you that FRSA and our member agencies share a commitment to public accountability. We seek to work collaboratively with the Department to implement exemplar practice in this area. We do not see this as in conflict with the development of systems that are efficient and avoid unnecessary overhead costs wherever possible.

Yours sincerely



Samantha Page
Executive Director

Examples:

Example 1: Prior to 30/6/2000 the agency provided separate acquittal reports for Counselling, Relationship Education and AMFT. From 1/7/00, on advice from FaHCSIA, they began providing a consolidated report, consistent with the online reporting mechanism that had a drop-down box "Mixed – FRC, FST, FRE, FRM & AMFT" – to provide a single report every 6 months. The current Service Agreement for 2005-08 Schedule (page 9) 5.1 (c) says "*[Relevant only to Funding Recipients receiving Mixed Funding] To allow flexible service delivery, the Funding Recipient has the discretion to decide how much of the Funding to spend between Sub-programs within the Mixed Funded Services subject to minimum targets for each sub-program being met.*" Which they interpreted to mean that they could continue to provide a consolidated report for the mixed schedule programs. A consolidated report was provided in 2005-06 and accepted. Then in 2006-07 they were advised that they should have provided separate audited reports for each sub-program and separate the counselling provided into AGD funded counselling and FaHCSIA funded counselling (ie now from 3 reports to 1 and now back to 4). The FaHCSIA office accepted that this will require changes to the accounting system and indicated that they will accept the consolidated report for 2006-07 but next year they will require separate reports not just for 2007-08 but for the 3 years of the service agreement. The State Office has provided a breakdown of FacSIA funded counselling and AGD funded counselling – a table was provided showing a 50% split in 2007-08 but uneven split in 2005-06 (47%/53%) and 2006-07 (36%/64%).

Example 2: This agency has submitted audited financial reports for each funded program and a consolidated report, believing they have fully met contractual requirements. This is only the second year that they have had the audit conducted on each funded program, prior to that the audit was conducted on the consolidated report with an acquittal provided for each program. The cost of auditing has substantially increased as a result of this change. Now they have received correspondence from the State Office to say that there are two additional audit reports required – for approx. \$4500 funding provided for FRSP data entry and \$5,500 funding provided for a father inclusive practice pilot (received in late June 07 for expenditure in the 2007-08 financial year). They can provide an acquittal for each of these amounts but to recall the auditor to verify the acquittal reports will cost \$600 - \$1,000.

Example 3: In the absence of any direction from FaHCSIA to separately acquit the FRSP Online data entry funding the agency included these funds in the consolidated income and expenditure report. They have since been asked to provide a separate acquittal. Had they known a separate acquittal would be required they could have recorded the expenditure appropriately to generate a report but because they did not anticipate this the report will now have to be done manually. It is unclear whether an auditor's statement is required on the acquittal, if so there will be a cost equal to more than 10% of the funding provided.

Example 4: This agency has 4 services funded through the FRSP, 3 services funded through another branch of FaHCSIA, 4 services funded by one State Govt Department and 3 others funded by other State Government Departments. The reporting requirements of each funding body are different; the Commonwealth requirements are substantially more onerous than the State Government with regard to the time and cost involved. However, the State Government program administration incorporates a risk analysis approach that is considered more rigorous.