PRINCIPLE 7

Transparency and accountability

The board demonstrates accountability by providing information to stakeholders about the organisation and its performance

7.1 The organisation's governing documents and policies relevant to its governance are available to stakeholders

7.2 The board oversees appropriate reporting to stakeholders about the organisation's performance and financial position

7.3 Transactions between related parties, if any, are disclosed to stakeholders

7.4 Directors' remuneration and other benefits, if any, are disclosed to stakeholders

7.5 Members have the opportunity to ask questions about how the organisation is run and to hold the board to account for their decisions

The board has ultimate authority for the organisation and as such has ultimate accountability for its activities and performance. This means they must present a fair representation of the organisation's activity and take responsibility for the consequences of their actions and their and the organisation's performance.

What is accountability?

Accountability exists in a relationship between two parties where one has expectations of the other, and the other is obliged to provide information about how they have met these expectations or face the consequences of failing to do so.

There are two components of accountability:

- Answerability – which means providing information and justification for how one's actions align with expectations; and
- Enforcement – which means being subject to, and accepting the consequences of, failing to meet these expectations.

Because accountability in an organisation will involve multiple parties, it is important there is clarity about who is accountable to whom and how. The way this accountability is achieved will generally be set out in an organisation's governing documents, such as its constitution, and any laws that apply to it. For example, an NFP may be required to provide an annual financial report to its regulator and the penalty for failing to do this may be a fine.

It is important that the documents and policies that enable accountability are made available to relevant stakeholders. Subject to necessary confidentiality, usually this is done by providing such information on the organisation's website, but it should be available on request at a minimum.

For accountability to be achieved, there must be transparency.

What is transparency?

Organisations are transparent when they enable others to see and understand how they operate in an honest way. To achieve transparency, an organisation must provide information about its activities and governance to stakeholders that is accurate, complete and made available in a timely way.

Transparency enables accountability.

This does not mean all information should be made publicly available. There are certain types of information that may not be provided publicly such as private information (such as client records) and 'commercial in confidence' material (such as tender submissions).

To whom are boards accountable?

The board is entrusted by its members to govern on their behalf. As a result, the primary accountability of boards is to their members.

There are several ways that boards can demonstrate accountability to their members. For example, by answering members' questions at general meetings and holding open and fair elections for board members. One of the ways boards are held accountable is through upholding their duties which are discussed in *Principle 2: Board roles and responsibilities*.

Boards may also be accountable to other sources including:

- Regulators, police and the courts;
- Government and non-government accreditation bodies;
- Clients and customers;
- Financial institutions such as banks;
- Funders and government departments through funding and service agreements; and
- Other individuals and organisations through contracts for service or employment.

It is important that boards understand to whom they are accountable and that they are satisfied they are meeting any obligations they have to them.

Annual reporting

One of the ways an organisation can demonstrate accountability to stakeholders is through publishing an annual report. An annual report is a document that includes governance and performance information about the organisation in a certain reporting period such as:

- Information about the organisation's purpose, vision, values and strategic goals;
- Statements from the organisation's leaders such as its CEO and chair;
- Profiles of directors and information about the organisational structure;
- Information about key organisational resources (such as staff and volunteers); and
- Information about the organisation's activities within the reporting period, including key statistics and performance data.

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An organisation's governing documents and any laws that apply to it may set out requirements in relation to publishing annual reports such as what it must include, to whom it must be provided and within what timeframe.

Annual reports are also a valuable way for organisations to connect with their stakeholders. Many organisations use their annual reports as a way of demonstrating their achievements during the year to help stakeholders, particularly donors and volunteers, to understand how their contributions assisted in achieving the organisation's goals.

An annual report may contain the organisation's financial report or an extract.

Financial reporting

Many NFP organisations are required to produce a financial report and provide this to their members, funders or to lodge it on a public register.

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An organisation's governing documents and any laws that apply to it may set out requirements around the presentation of financial reports including what form they take and to whom they must be provided and within what timeframe.

Many organisations are required to prepare their financial reports in accordance with Australian Accounting Standards. These standards are developed, issued and maintained by the Australian Accounting Standards Board (AASB) and set out the rules for the preparation and presentation financial statements.

To determine whether an organisation is required to apply with Australian Accounting Standards, directors will need to assess whether their organisation is a 'reporting entity'. The definition of a reporting entity is set out under Australian Accounting Standards.

STATEMENT OF ACCOUNTING CONCEPT 1: DEFINITION OF REPORTING ENTITY

Reporting entities are all entities (including economic entities) in respect of which it is reasonable to expect the existence of users dependent on general purpose financial reports for information which will be useful to them for making and evaluating decisions about the allocation of scarce resources.

Generally, if people use and rely on an organisation's financial statements to help them make decisions (for example, about how to spend money) and they can't command the organisation to provide this information, it will be considered a reporting entity.

Reporting entities must produce 'general purpose financial reports'. The definition of general purpose financial reports is set out under Australian Accounting Standards.

STATEMENT OF ACCOUNTING CONCEPT 1: DEFINITION OF REPORTING ENTITY

"General purpose financial report" is a financial report intended to meet the information needs common to users who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs.

General purpose financial reports must comply with all Australian Accounting Standards.

Organisations that are not reporting entities may choose to produce 'special purpose financial reports'. These are a type of financial report that do not have to comply with all Australian Accounting Standards and which are prepared for the benefit of particular users. However, the users of these reports may require that they comply with certain Australian Accounting Standards. For example, organisations that are registered charities must comply with six minimum accounting standards.

It may be necessary for a financial report to be audited or reviewed depending on the requirements of regulators, funding providers or the organisation's governing documents and any laws that apply to it.

> **!** *An organisation's governing documents and any laws that apply to it may set out requirements around who must approve the organisation's financial reports. Often this will be the directors.*

General meetings

Many organisations hold an annual general meeting (AGM) which provides an opportunity for members and other stakeholders to gather, hear about the organisation's activities and finances for the previous year, and ask questions.

AGMs also provide an opportunity to undertake important governance activities that can only be done at general meetings of members such as electing board members and making changes to an organisation's governing documents. Generally, these activities will be undertaken through a vote of the members and it is important to make sure that any relevant procedures in relation to voting are followed.

> **!** *An organisation's governing documents and any laws that apply to it may set out requirements around holding AGMs such as regarding notice periods, the content of the notice, who has to be invited and any business that needs to be discussed.*

Sometimes it is necessary to gather members more often than once a year and so the board may call an additional meeting of members. These meetings are sometimes called special general meetings (SGM). An SGM might be called to deal with an item of business that cannot wait for an AGM such as authorising a merger or winding up the organisation. It is important to follow any procedures relevant to holding an SGM which will generally be set out in an organisation's governing documents and any laws that apply to it.

Disclosing related party transactions

It is not uncommon for NFP organisations, particularly smaller NFPs, to undertake transactions with people who are closely related to it. For example, a director might offer a discounted service to the organisation or their child might buy a used car from it. These transactions are called 'related party transactions'.

Because related party transactions occur between the organisation and someone closely associated with it, they must be carefully managed so that they meet any obligations under the law, including any requirements to disclose them.

> **!** *Organisations that are required to lodge general purpose financial statements must comply with the Australian Accounting Standard on related party transactions (AASB 124: Related Party Disclosures).*

Regardless of whether an organisation is required to lodge general purpose financial statements, it is a good idea to disclose related party transactions to promote transparency.

The definition of 'related parties' is set out in AASB 124 *Related Party Disclosures* and includes people such as the directors, the CEO, and other senior staff. It also includes the members of these peoples' close family that have control, joint control or significant influence over the organisation.

AASB 124 *Related Party Disclosures* also defines 'related party transactions':

> **RELATED PARTY TRANSACTIONS**
>
> A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

Related party transactions may include:

- Purchases or sales of goods or property;
- Donations made or received;
- Rendering or receiving of services; and
- Receiving or providing loans.

It is a good idea to develop a policy on related party transactions that sets out how they will be disclosed and managed. These policies also help promote transparency, and the proper and accountable use of resources.

Disclosing remuneration and other benefits

Most directors in the NFP sector are not paid (remunerated) for their work as a director. However, where directors do receive remuneration for their work, it is a good idea that this remuneration is disclosed to stakeholders.

Where remuneration is paid, there are several ways disclosure can be made, the most straightforward of which is to list directors by name and report their respective remuneration.

The example below demonstrates how this can be done for a fictional organisation:

Figure 8: Example director remuneration disclosure

	Remuneration	Superannuation	Total remuneration
Chairperson			
Giulia Bianchi	$6,000	$540	$6,540
Directors			
Fei Zhen	$4,500	$405	$4,905
Patricia Parsons	$4,500	$405	$4,905
Joko Prasetyo	$4,500	$405	$4,905
TOTALS	$19,500	$1,755	$21,255

This disclosure should include any other benefits that directors receive as payment for their work. For example, if directors are given cars as part of their payment, the cost of this benefit should be included in the disclosure.

An organisation's governing documents may also set out requirements around the payment of directors such as requiring the approval of members. It is a good idea to develop a policy on how remuneration is determined and approved.

NFPs that are required to comply with *AASB 124: Related Party Transactions* must disclose an aggregate figure for the remuneration of 'key management personnel' in their annual financial report.

The definition of key management personnel is set out under *AASB 124: Related Party Transactions:*

KEY MANAGEMENT PERSONNEL

Those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity

This definition includes directors and will also generally include the CEO and other senior staff such as the chief financial officer and the chief operating officer.

The example below demonstrates how this can be done for a fictional organisation:

Figure 9: Figure 8: Example key management personnel remuneration disclosure

	2018	2017
Compensation by category	*$'000*	*$'000*
Short-term employee benefits	493	422
Post-employment benefits	26	24
Other long-term employee benefits	55	49
Termination benefits	0	0
TOTALS	574	495

Organisations that are not required to produce general purpose financial reports may still choose to disclose the remuneration of their key management personnel on a voluntary basis.

QUESTIONS FOR DIRECTORS

- TO WHOM IS THIS ORGANISATION ACCOUNTABLE?
- WHAT INFORMATION DO STAKEHOLDERS/MEMBERS NEED TO HOLD THE BOARD TO ACCOUNT?
- HOW IS REPORTING ALIGNED TO STAKEHOLDER/MEMBER NEEDS?
- HOW CAN MEMBERS HOLD THE BOARD TO ACCOUNT FOR ITS DECISIONS?
- WHAT ARE THE CONSEQUENCES FOR FAILING TO MEET MEMBER/STAKEHOLDER EXPECTATIONS?

CASE STUDIES

HelpfulCare

HelpfulCare provides an annual report to its members that sets out in detail how the organisation worked throughout the year and how it performed against its strategic objectives. The annual report includes an extract of their financial report and a full version of this is available on their website.

To keep their stakeholders informed about their activity, HelpfulCare uses a number of communications tools such as a magazine, email bulletins, a blog and social media.

Each year, HelpfulCare holds an AGM to which they invite their members and key stakeholders. At the AGM, directors and senior staff provide presentations on the key achievements for the year and invite questions from members.

The directors of HelpfulCare are each paid a small honorarium for their service and this is disclosed in their annual report. Directors receive $100 per meeting to cover the cost of their travel and expenses. The annual report also lists any related party transactions made during the year.

The Friendlies

Keeping their membership actively engaged is a key focus for the Friendlies. They do this through producing a monthly email newsletter where they focus on their recent activities and share stories about how their work has made a difference.

Members are also invited to attend quarterly ‘town hall’ meetings where they can hear verbal reports of the Friendlies’ recent activities and ask any questions about their operations. Once a year, the town hall meeting includes an annual general meeting which includes the presentation of financial statements.

The Friendlies do not have a website and only use social media and email to engage with their membership. As a result, their governing documents are not available online, but they provide these documents to members on request and a copy is given to all new members.

The Friendlies do not pay their directors and this is widely known by stakeholders. They maintain a policy on related party transactions that requires directors to disclose any such transactions at one of their town hall meetings.