



Australian Government



Australian  
**Charities** and  
Not-for-profits  
Commission

# National Standard Chart of Accounts (NSCOA) environmental scan

**Summary of findings from the ACNC NSCOA environmental scan**

## ABOUT THE ACNC

The Australian Charities and Not-for-profits Commission (ACNC) is the independent national regulator of charities. The ACNC has been set up to achieve the following objects:

- maintain, protect and enhance public trust and confidence in the sector through increased accountability and transparency
- support and sustain a robust, vibrant, independent and innovative not-for-profit sector
- promote the reduction of unnecessary regulatory obligations on the sector.

To achieve these objects, the ACNC:

- registers organisations as charities
- regulates charities, helping them to understand and meet their obligations through information, guidance, advice and other support
- helps the public understand the work of the not-for-profit sector through research, information, guidance, advice and other support
- maintains a free and searchable online public register of all registered charities in Australia
- is working with state and territory governments (as well as individual federal, state and territory government agencies) to develop a 'report-once, use-often' reporting framework for charities.

## Acknowledgements

The ACNC would like to express thanks to the following:

- the NSCOA Advisory Body members, in particular the chair Professor David Gilchrist, for their advice, support and contributions to the environmental scan.
- Our Community and the Institute of Public Accountants for their contributions.
- all those who participated in the environmental scan surveys and interviews.

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## EXECUTIVE SUMMARY

The National Standard Chart of Accounts (NSCOA) is an accounting tool for not-for-profit (NFP) organisations, designed to simplify and improve the consistency of financial account categories and terms used.

The ACNC's environmental scan of the NSCOA set out to analyse the current use and awareness of the NSCOA, as well as the challenges or benefits identified in its use.

The scan examined:

- Current use and/or awareness of NSCOA among:
  - Not-for-profits (NFPs)
  - government agencies
  - professional advisors
  - other stakeholders
- Existing and prospective access and support
- Environmental trends, influences, opportunities, inhibitors
- Prospects for adding value
- Deficiencies and areas for improvement

The number of responses to the NSCOA environmental scan numbered more than 750.

### Key findings:

- Respondents wanted the ACNC to continue its support of the NSCOA, with many keen for the ACNC to update and develop it, as well as provide more guidance to help further its use
- The NSCOA has a significant base of enthusiastic users and supporters. However, most NFPs do not use the NSCOA
- The reason many NFPs have not adopted the NSCOA is because they are happy with their existing accounting system, and because the cost and resources required to convert to the NSCOA exceeds the perceived benefits
- The level of awareness of the NSCOA was high amongst professional advisors, but far lower among charities, non-government grant makers and government agency staff
- A significant number of responses suggested some government agencies did not use the NSCOA when requesting financial information from NFPs
- Some respondents requested that different versions of the NSCOA be produced – for example, simplified and/or sub-sector specific versions.

### The ACNC's response:

In response to the environmental scan, the ACNC has developed a strategy for its ongoing support and development of the NSCOA over the short, medium and long term:

Short term

- Publish the environmental scan report to promote the NSCOA

- Consider ways the NSCOA could be updated.

#### Medium term

- Develop NSCOA guidance, tools, and webinars to support the sector
- Continue to promote the NSCOA and its associated benefits
- Work with stakeholders, including government agencies and software providers, to promote and support the NSCOA's use.

#### Long term

- Work towards the NSCOA being aligned to the Standard Business Reporting (SBR) platform which would assist the 'report once, use often' framework for NFPs reporting to all tiers of government.

# INTRODUCTION

As part of its legislative objects, the ACNC participates in wider dialogue about charities' financial reporting.

The ACNC's [Financial Reporting Scaffolding Policy](#) sets out the principles that guide the ACNC's participation in dialogue about financial reporting. The National Standard Chart of Accounts (NSCOA) is one element of the policy.

## Overview

### What is the NSCOA?

The NSCOA is an accounting tool for NFPs which can be downloaded from the [ACNC website](#).

It includes a standardised list of financial account categories and a comprehensive data dictionary designed for use by NFPs in their accounting systems.

The NSCOA was designed to simplify, and improve the consistency of, accounting categories and terms used by bodies that fund NFPs, as well as NFPs themselves.

As well as the benefits that come from using a standardised set of accounts, there are also red tape reduction benefits for NFPs reporting to government that use the NSCOA.

Following agreement through the Council of Australian Governments in 2010, all States and Territory governments had implemented the NSCOA by 1 July 2011. This means that government funding agencies should be using the NSCOA when requesting financial information from NFPs.

Some NFPs that use a different chart of accounts in their accounting system still use the NSCOA data dictionary to improve their systems.

The NSCOA is a major opportunity to establish a consistent reporting regime for all NFPs, and contributes to the development of a "report-once, use-often" framework for charities.

### Where did the NSCOA come from?

The Australian Centre for Philanthropy and Nonprofit Studies at Queensland University of Technology (QUT) developed the NSCOA to address the high levels of unnecessary reporting compliance costs and red tape the NFP sector faced.

QUT handed over administration of the NSCOA to the ACNC on 12 June 2013. The ACNC then established an Advisory Body to oversee the NSCOA's development.

This body includes representatives from Commonwealth, State and Territory Government agencies, the NFP sector, the research sector and accounting professionals.

The Advisory Body's first task was to oversee an environmental scan of the NSCOA.

### What was the aim of the NSCOA environmental scan?

The NSCOA environmental scan aimed to examine awareness and use of the NSCOA, as well as any challenges or benefits users have identified.

Based on the results of the scan, the ACNC then developed a strategy for the NSCOA.

### Who are the stakeholders of NSCOA?

- NSCOA Advisory Body members
- Charity sector
- NFP sector (all other types of not-for-profit organisations)
- Government agencies
- Non-government grant makers
- Professional advisors (accountants)
- Accounting and governance bodies.

### What were the survey respondent numbers and methodology?

Stakeholders	Responses
Charity sector (registered charities)	494
NFP sector (all other types of NFPs)	143
Professional advisors (accountants)	52
Non-government grant makers	50
Government agencies	23

The number of responses to the NSCOA environmental scan surveys was substantial, with more than 750 completed.

Many respondents said they would be willing to take part in further research, as well as be updated on developments in the NSCOA. This indicates a high level of stakeholder engagement and interest in the NSCOA.

The methodology used in the environmental scan is detailed in Appendix 1.

## MAIN FINDINGS

The main findings from the surveys across various stakeholder groups were as follows:

### Awareness of the NSCOA

NFP sector	Charity Sector	Professional Advisors	Non-Govt Grant-Makers
60%	26%	63%	32%

Awareness of the NSCOA was highest among Professional Advisors. There were also high NSCOA awareness levels throughout the NFP sector.

One explanation for this might be that the NFP sector survey was not sent to a random sample of recipients as no such dataset was available. Instead, it was distributed through ACNC stakeholder networks which were more likely to be aware of the NSCOA.

### Use of the NSCOA

NFP Sector	Charity Sector	Non-Government Grant-Makers
30%	9%	4%

Use of the NSCOA was highest among the NFP sector. As noted above, this may be due to the non-random sampling of survey recipients.

The results of the registered charities survey, sent in February 2017 to a large representative sample of charities, suggests a lower figure may be more accurate.

### Respondents who stated that Government agencies did not accept NSCOA compliant financial information

NFP sector	Charity Sector
26%	25%

Although Government agencies are required to accept NSCOA-compliant financial information, both NFP and charity responses indicated this was not always the case.

In addition, 38% of respondents to the government agency survey indicated uncertainty about whether the NSCOA was used when requesting financial information, while 31% stated NSCOA was not used, which is consistent with these results.



## What were the most common responses from the NFP and charity sectors?

	NFP sector	Charity Sector
Main use of NSCOA	As a chart of accounts	As a chart of accounts
Reason for not using NSCOA	Prefer their own system	Prefer their own system
Do government agencies require or recommend the use of NSCOA?	Neither require or recommend	Not sure
Accounting software used by respondents	MYOB	MYOB
What information do government grant funding agencies require?	Financial acquittals <sup>1</sup>	Financial acquittals
What information do non-government grant makers require?	Financial acquittals	Financial acquittals
Main benefit of NSCOA	Improved financial procedures and financial reporting	Improved financial procedures and financial reporting

Some respondents which had not set the NSCOA in place as their chart of accounts still found it useful. Some, for example, used the NSCOA data dictionary to help them decide how to classify specific financial transactions.

Most respondents did not identify problems with the NSCOA which precluded its use. In fact, the most common reason for respondents not using the NSCOA was that they preferred to continue using their existing systems.

The NSCOA would appear to be particularly relevant to newly formed organisations that need to set up an accounting system and existing organisations that wish to change systems.

Responses from NFPs and charities suggest low levels of support for, and promotion of, the NSCOA among government agencies.

<sup>1</sup> Acquitting a grant is the process of reporting back to the grant maker to provide assurance that the grant funds were spent in line with the purpose and conditions of the grant.

**What were the most common responses from the non-government grant makers and government agencies?**

	<b>Non-Government Grant-Makers</b>	<b>Government agencies</b>
<b>What information does your organisation require from funded NFPs?</b>	Financial acquittals	Financial acquittals
<b>Is the format of the financial information you request from NFPs aligned with NSCOA?</b>	Unsure	Unsure
<b>Do NFPs submitting financial data to your organisation use the NSCOA?</b>	Unsure	Unsure
<b>What financial data from NFPs does your organisation use?</b>	Compliance/risk assessment	Compliance/risk assessment

Financial acquittals were the most common financial information required from non-government and government grant makers.

As identified earlier, it appears some government grant makers are:

- not using the NSCOA and/or requiring its use and
- unsure whether the information requested aligns with NSCOA.

Although government grant makers are required to only request financial information that aligns with NSCOA, some respondents indicated they were unsure if the information they requested did so.

Both government and non-government grant makers use financial information for compliance or risk assessments, the second most common use is for analysis to compare funded NFPs' performance.

## SURVEY HIGHLIGHTS

### Not-for-profit sector surveys

One hundred and forty-three organisations completed the NFP sector survey.

Sixty percent of NFP survey participants stated they had heard of the NSCOA and 30% of all participants had used the NSCOA in some way.

Grant seeking NFP participants were far more likely to have heard of and use the NSCOA.

Eighty-five percent of NFPs that had heard of the NSCOA were grant seekers. Grant seekers comprised 86% of all NFP NSCOA users in the survey sample.

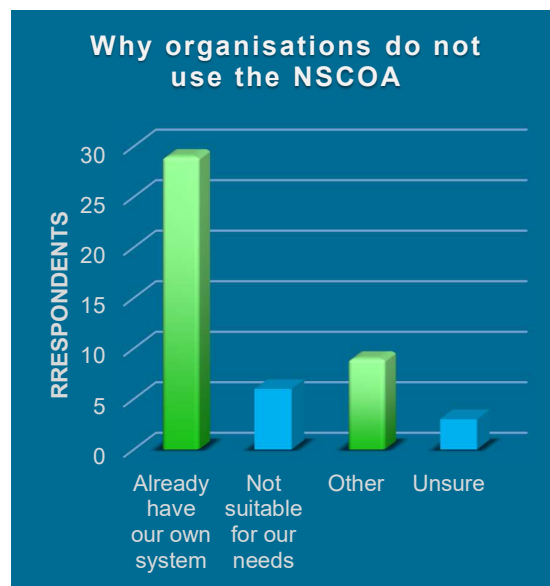
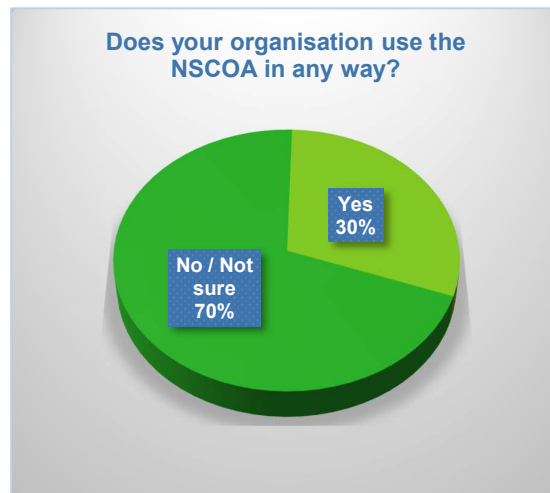
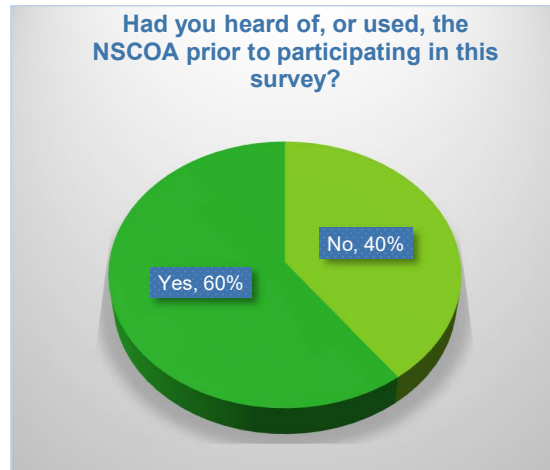
It should be noted that this group was not a random sample and the level of NSCOA awareness and use were much higher than in the registered charities random sample.

Fifty-three percent of those participants who stated they already used the NSCOA volunteered for further ACNC research, indicating a much higher level of engagement than seen from participants in the registered charities random sample survey.

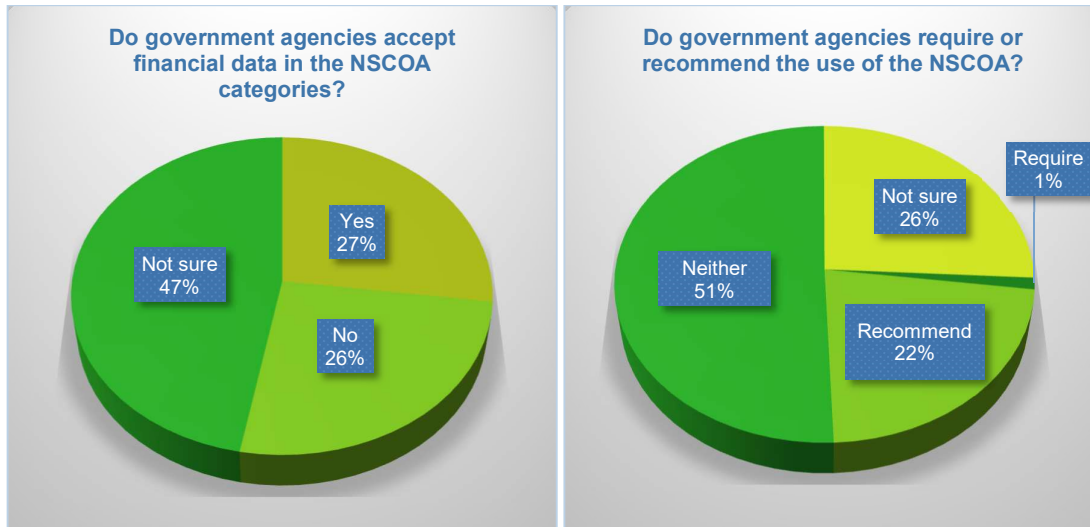
By far the most common reason stated by NFP organisations for not adopting the NSCOA was that they already had a working accounting system they were happy with, rather than any identified fatal flaws with the NSCOA.

'Other' responses included:

- *We are only small and not subject to auditing*
- *Too complex*
- *Required to use the Church chart of accounts*
- *We are considering using it.*



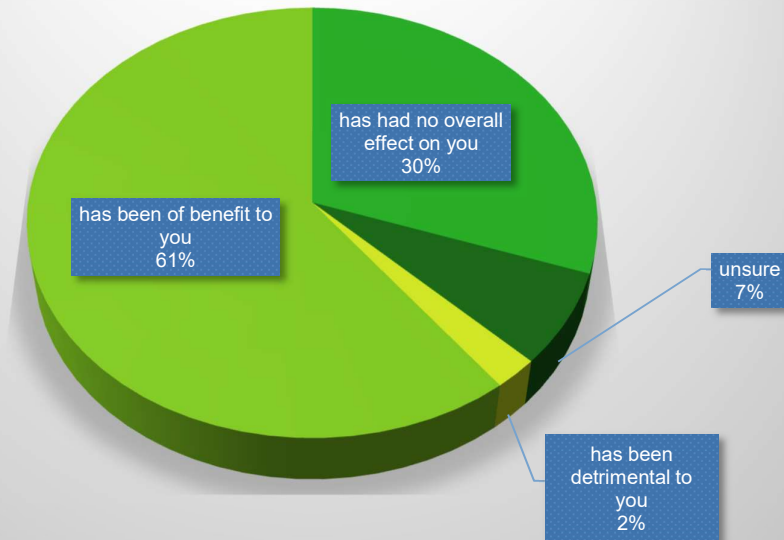
**Not for profit organisation experiences of NSCOA use with government agencies**



**Perception of NSCOA benefits by NFP organisations**



Overall, would you say that the introduction of the NSCOA ...



**Comments**

*“We used the NSCOA chart and dictionary as the basis of our Chart of Accounts with modification to cater for the specifics of our needs.”*

*“The NSCOA is not compatible with our organisation.”*

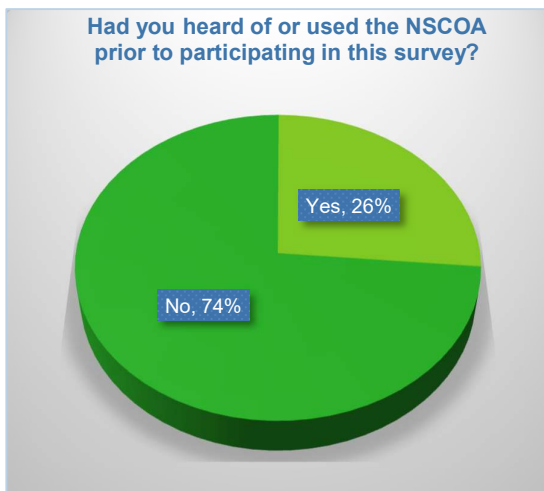
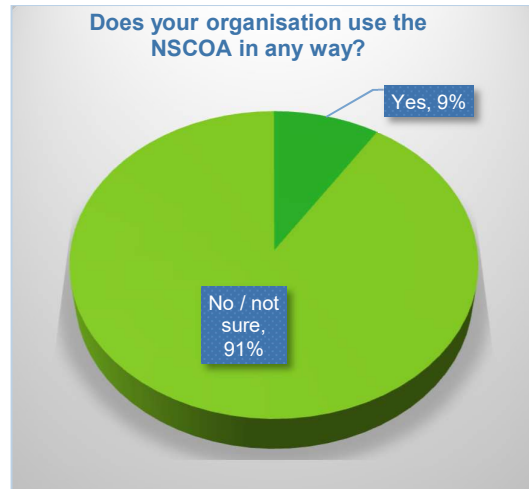
*“Different NSCOA templates for different types of NFP organisations should be considered.”*

*“The ACNC should work more closely with other government agencies and encourage them use the NSCOA”*

## Charity sector surveys

Four hundred and ninety-four registered charities (out of random sample of around 6000) completed the charity sector survey.

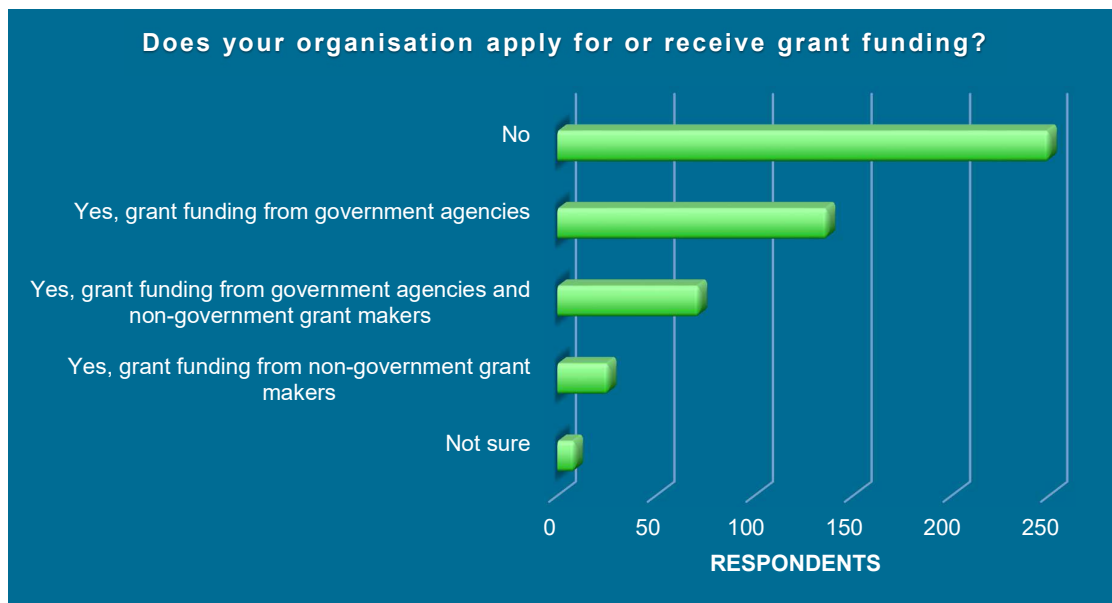
Twenty-six percent of respondents said they had heard of the NSCOA and 9% of all participants stated they had used the NSCOA in some way.



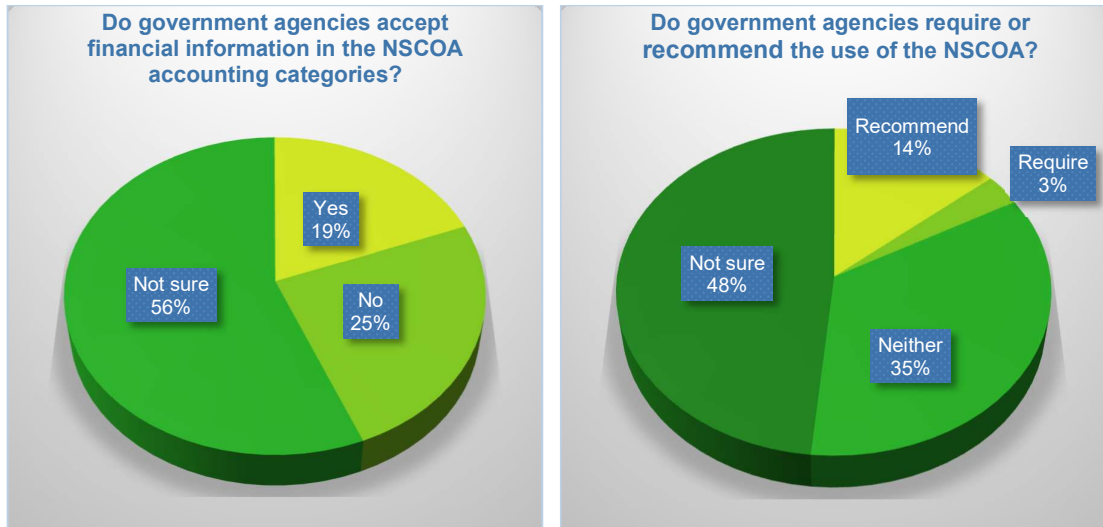
Grant seeking charity participants were more likely to have heard of and used the NSCOA.

Fifty-eight percent of NSCOA-aware and 76% of NSCOA-using charities were grant seekers.

Appendix 2 to this report details additional insights into charity NSCOA users.



## Charity experiences of NSCOA use with government agencies



### Comments

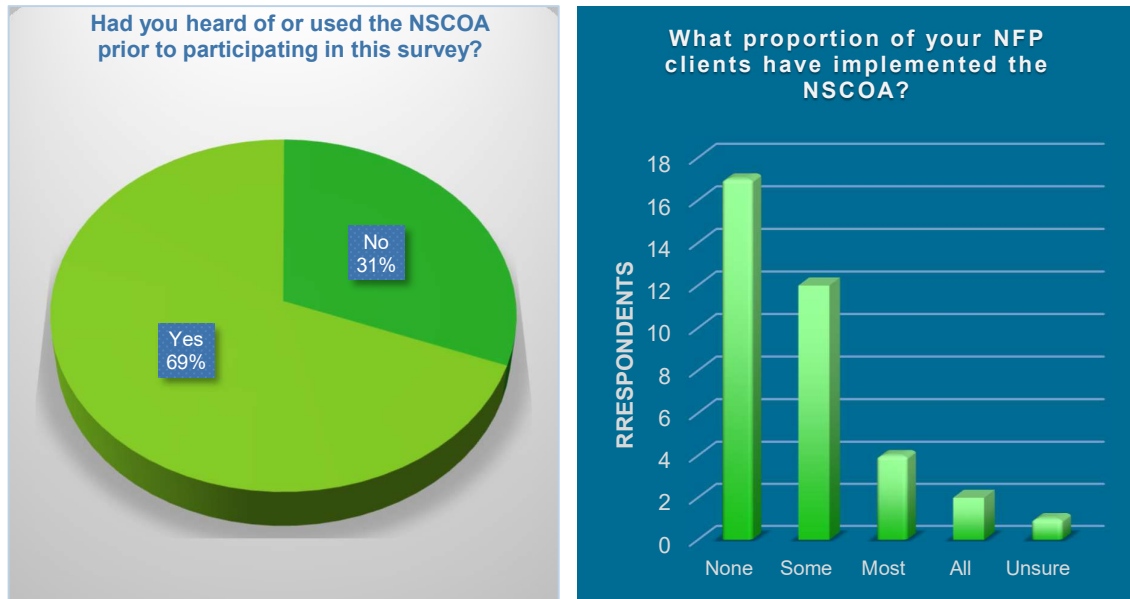
*"Apart from ACNC I am not aware of any government agency actively promoting the use of NSCOA or providing tools, resources or training."*

*"(NSCOA) provides a valuable reference guide for those financial transactions that sometimes you are unsure where to put."*

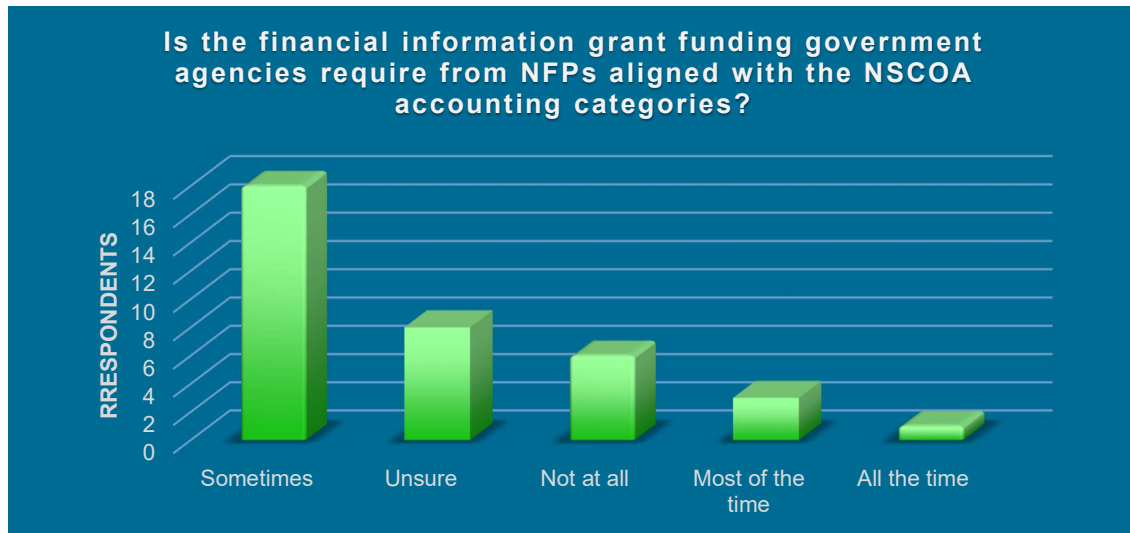
*"(NSCOA) needs to be reviewed and updated regularly."*

## Professional advisor (accountant) surveys

Fifty-two respondents completed the professional advisor surveys.



## Professional advisors' experience with government agencies



### Comments

*"NSCOA is not well known, it needs to be promoted more to boards"*

*"The changing of the Chart of Accounts to adapt to NSCOA has caused some to resist. But many, once the matter is raised, see the benefit and make the change."*

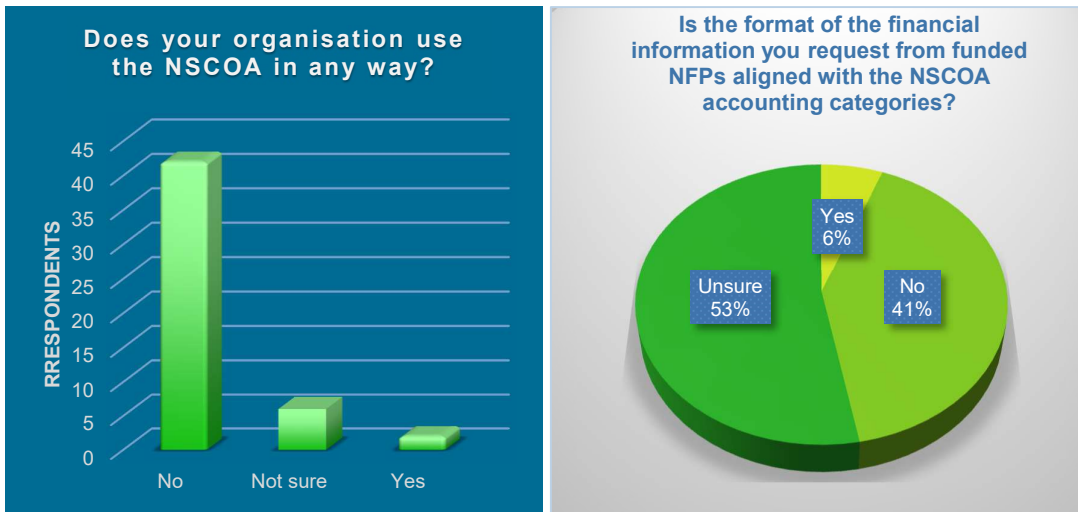
*"NSCOA is quite remedial and lacks sophistication for larger agencies concerned with monitoring unit costs e.g. NDIS."*

*"Portability is great, especially because some people travel around from board to board in different organisations - will make it easier for them to understand accounts."*

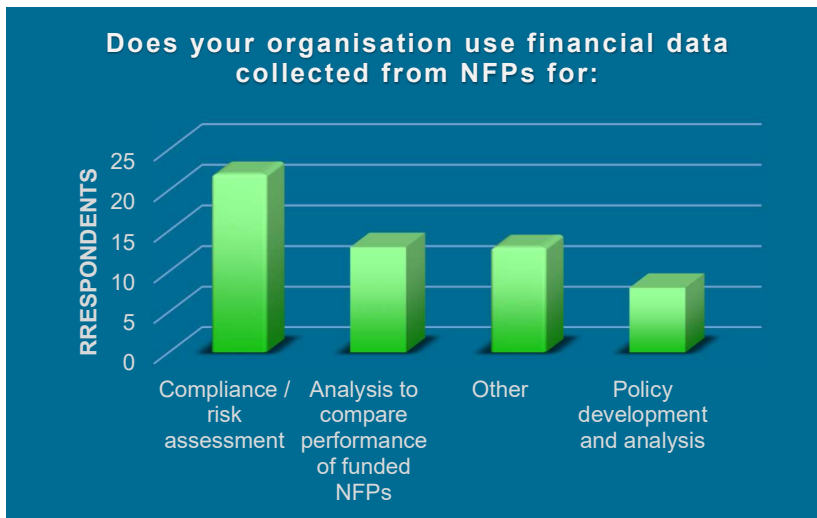


## Non-government grant maker surveys

Fifty respondents completed the survey, the level of awareness and use of the NSCOA was the lowest in this group of stakeholders.



## Use of financial information collected by non-government grant makers (multiple answers permitted)



Other uses of financial data by non-government grant makers:

- acquittal
- to confirm funds spent
- ensure solvency
- reporting

## Comments

*“We implemented a very similar chart of accounts in 2012 and it has been a process of education”*

*“A standard (but simplifiable) chart of accounts would plainly provide you with a means of gathering statistics from charities which range in size – from very small organisations like our own to the very large ones.”*

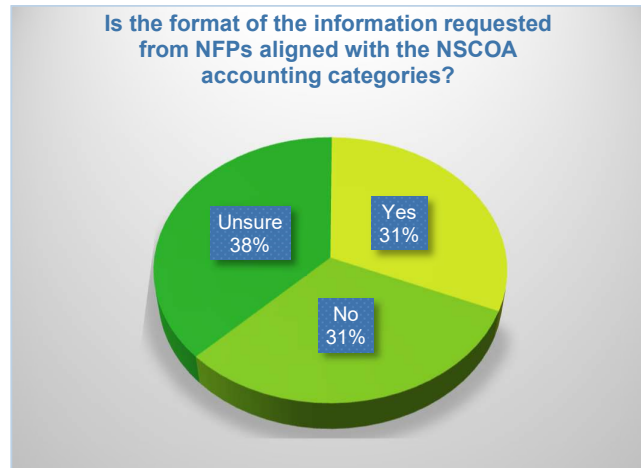
*“We do not see future benefits”*

*“In order for buy-in, there needs to be buy-in by government. Government-led change in reporting will bring about buy-in by the sector”*

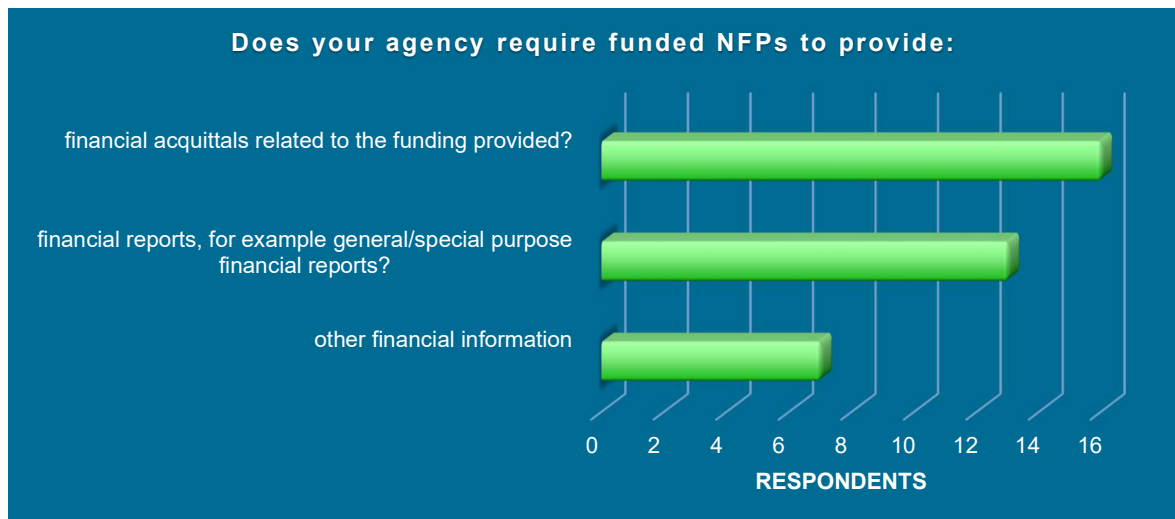
## Government agency surveys

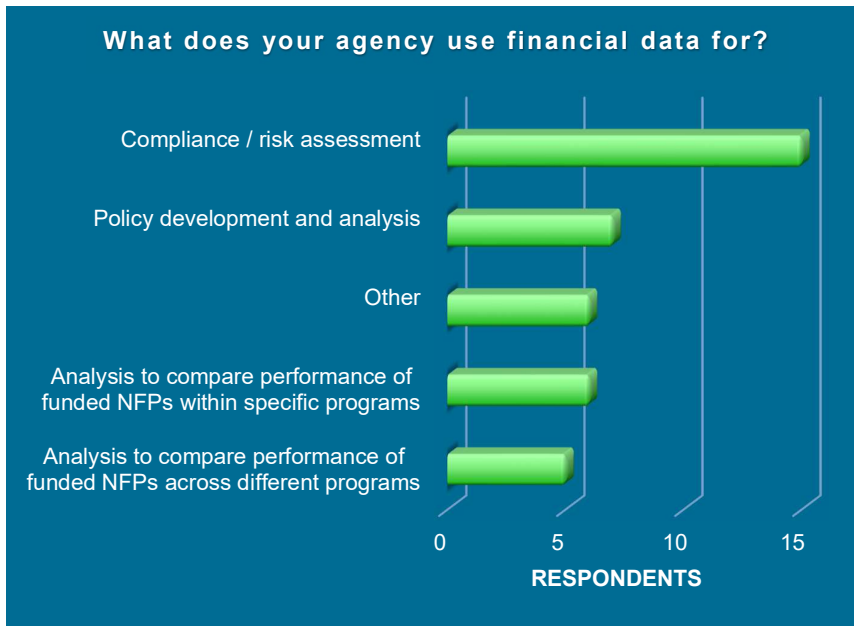
The survey attracted 23 respondents, with 20 respondents stating they provided grant funding to NFPs.

This survey sample was too small to draw any significant conclusions but feedback across the NFP, charity and professional advisor surveys did suggest that government agencies have not consistently accepted financial information in the NSCOA categories from those participants.



## What information government agencies request and how they use it





Other uses of financial data by government agencies:

- project management
- continuous development
- ensure liquidity
- benchmarking
- ensure capacity to deliver

### Comments

*“Having a standard NSCOA removes the flexibility for NFPs to design accounting systems that best suit their own specific needs. In the same way that NFPs can use the suggested governance documents, the Chart of Accounts should also be a suggestion, for those smaller NFP’s who don’t have the expertise/skill to develop their own Chart of Accounts.”*

*“The concept is a good idea but the capacity of organisations to implement the NSCOA varies. We support the idea of making reporting as easy and relevant as possible.”*

## General NSCOA findings across surveys

### Prospects for adding value / perceived benefits

Across all surveys, respondents identified the primary benefits of using the NSCOA as “improved financial procedures and financial reporting” and “reduced time spent preparing financial reports”.

Relatively few participants noted reductions in grant application/acquittal times or costs as benefits. This may be connected to the existing levels of NSCOA alignment with government/non-government grant maker financial information requests and the lack of promotion/support of the NSCOA noted across the surveys.



### Current deficiencies and areas for improvement

Common NSCOA-related challenges and problems respondents identified were:

- Not compatible with the organisation
- Too complex/not sophisticated enough
- Too many/not enough account categories
- Out of date
- Time consuming to implement
- Alphabetical ordering of accounts in the NSCOA not practical
- Ambiguity with some definitions
- Too costly to convert/adopt

### Suggestions for improvement

Some of the key suggestions for improvement included:

- Update it
- Provide training, guidance and support
- Clarify use of MYOB codes in the NSCOA

- Add categories
- Create simplified version(s)
- Create different templates for different types of NFP organisations
- The ACNC should promote the NSCOA more
- The ACNC should encourage government agencies to use the NSCOA
- More guidance, including real life examples
- Update to include NDIS
- Develop other NSCOA tools

## OTHER FINDINGS

The environmental scan itself has had a promotional aspect, with many participants who had not previously heard of the NSCOA now considering its future use.

In addition, there was a 280% increase in visits to the ACNC's dedicated [NSCOA web page](#) between December 2016 and February 2017 when compared to the corresponding period 12 months earlier. This represented an increase of 2,560 visitors.

### **Should the NSCOA be mandatory?**

Although there is no proposal to make the NSCOA mandatory – and there was no survey question asking this – many respondents did express an opinion.

Around 60% of those respondents who did comment on the issue felt it should be mandatory (with consistency as the primary benefit), while 40% felt this would be undesirable (with the need for flexibility cited as the primary reason).

### **Review of existing available NSCOA related material**

A review of online material identified a number of webpages referencing the NSCOA.

However, the majority of NSCOA-related material found online – particularly technical guidance and support material such as implementation guides – was a few years old.

There were a number of Federal and State/Territory Government websites which contained current information about the NSCOA. And some government agencies' grant guideline documents included brief references to the NSCOA.

References to the NSCOA were found in recent guides published by CPA Australia and Chartered Accountants Australia and New Zealand.

Only a few references to NSCOA from the perspective of NFP organisations were found. Of particular note, Pro Bono Australia's 'State of the Sector' surveys for 2014 and 2015 both included a question asking respondents to rate the importance of the NSCOA in comparison to other regulatory issues.

### **Stakeholder submissions**

A range of accounting and governance organisations were invited to make submissions for the environmental scan.

Two organisations provided formal submissions, the Institute of Public Accountants and Our Community. Both submissions supported the NSCOA and made suggestions for its future use and improvement.

## APPENDIX 1 - Methodology

As part of the environmental scan, we contacted a wide range of stakeholders to find out their views about the NSCOA. Feedback was provided mainly through a series of online surveys, with several follow-up interviews also conducted.

### Surveys

Surveys were developed in consultation with the NSCOA Advisory Body and kept as short as possible, with the intention that participants could typically complete them within five minutes. The surveys focused on the specific information sought by the environmental scan with a series of yes/no, multiple-choice and sliding scale questions. A number of free text fields intended to provide context, gather feedback and collect contact information from participants were also included.

The survey questions focused on the organisations' awareness, use and perception of value of the NSCOA as well as identified benefits and problems.

### Sampling methodology

Probability sampling was used for the charity sector survey, using the ACNC database of over 54,000 registered charities.

A dataset of roughly 6,000 registered charities, nationally representative by state and charity size, was randomly selected from the ACNC register. All charities in this dataset were contacted by email and invited to participate.

For the surveys involving government, non-government grant maker, professional advisors and the NFP sector, no complete datasets were available from which to select a random sample of participants, instead non-probability sampling techniques (convenience sampling) were used.

Respondents to all surveys were self-selecting. Caution should be exercised if attempting to use the results of these surveys to draw general or broader conclusions.

### Survey distribution

- Direct email of survey invitations to identified potential participants
- Cascading the survey invitations through ACNC stakeholder groups (e.g. the ACNC Professional Users Group, Grants Working Group etc)
- Making the survey links publicly available for any interested participants on the ACNC website
- Distributing the survey link to accounting professional NFP-related accounting forums
- Publicising the surveys to the general public using ACNC media campaigns (e.g.: press release, Commissioner's Column articles, ACNC Facebook page and Twitter)

### Survey analysis methodology

The complete case analysis approach was generally utilised, with data from incomplete surveys excluded from analysis, except where omitting data would result in demonstrably biased results or make analysis impossible.

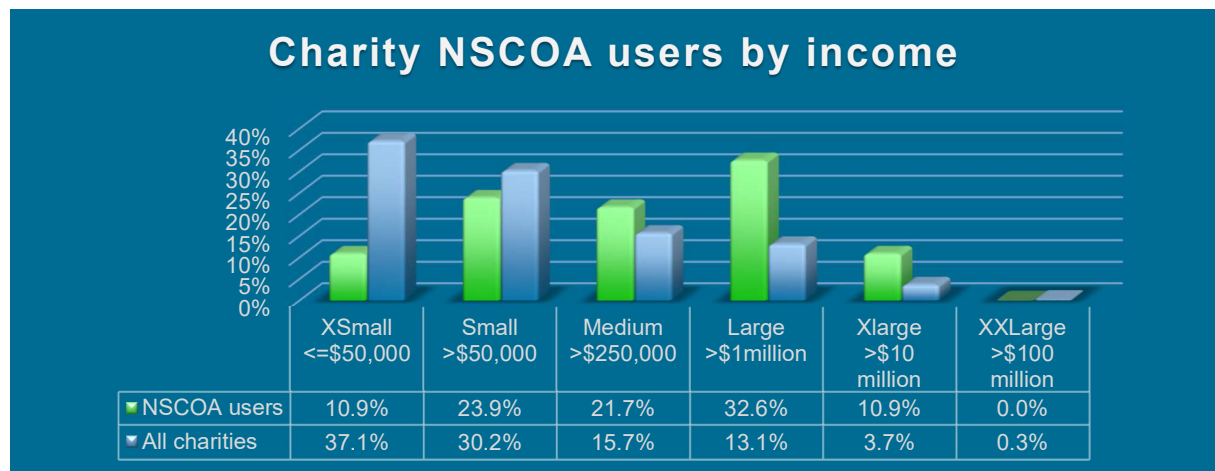
80% of surveys commenced were completed.

### Other environmental scan activities

A small number of follow up interviews with some respondents were also conducted.

## APPENDIX 2 – Charity NSCOA user demographic data

The charity sector survey found that charities which used the NSCOA ranged from small to large, with few extra-small or extra-large groups using it.

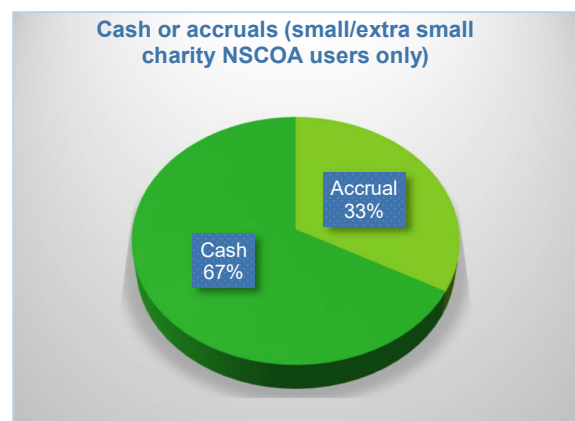


(Charities by income data from the [Charities Report 2015](#))

Seventy-nine percent\* of charity NSCOA users who submit financial reports to the ACNC prepare general purpose financial reports (which meet all accounting standards), rather than special purpose financial reports (which are only required to meet six specific accounting standards).



Sixty-seven percent of charity NSCOA users with annual revenue of less than \$250,000 prepared their accounts on a “cash” rather than “accruals” basis.



For more information, view the ACNC webpages on [financial reports](#) and [cash/accrual accounting](#).

*\* Analysis of submitted financial reports over time by the ACNC Reporting team suggests that some charities incorrectly identify their special purpose financial reports as general purpose reports. Therefore, this ratio is likely to be lower.*



