

Australian Computer Society
Financial Transparency Working Group
Proposals by Roger Clarke
Discussion Draft of 18 March 2021

The President has given undertakings that significant improvements will be made in relation to financial transparency. Congress needs to decide on the specific measures.

The Working Group's objective is to deliver appropriate levels of transparency to Congress and to the membership as a whole, and to do so by Friday 9 April for presentation to Congress on 15 April.

Specific Proposals

This document presents specific proposals for review, refinement and adoption, as follows:

To provide necessary information on an ongoing basis:

Congress members have the responsibility under Rule 8.1 to "determine directions and policies for the Society", and provide "advice to Management Committee ... on strategic planning and otherwise for the betterment of the Society".

In order to perform these functions, and fulfil their obligations, Congress members need an adequate and sufficiently up-to-date understanding of the Society's financial position. Hence:

1. *Provide to Congress unaudited **quarterly financial statements**, including greater detail for major items of revenue and expenditure than in the formal financial statements, including the budgeted figures, the previous year's figures, and notes in respect of figures that are large, or significantly different from budget or the previous year.*

Specific proposals are in **Appendix 1**.

Members need to be informed about the Society's activities, its sources of revenue, how surplus is applied, and key figures in the accounts that might otherwise give cause for concern. The current format of the published annual financial statements does not fulfil the need. Hence:

2. *Propose to Congress a **materially enhanced format for the published financial statements for the current year to 30 Jun 2021**, by means of a memorandum that explains items that are large, noteworthy or otherwise significantly different from the previous year.*

Specific proposals are in **Appendices 2A and 2B**.

To provide necessary background information:

Many aspects of the published financial statements as at 30 June 2020 need clarification. Hence:

3. *Provide to Congress **sufficiently detailed explanations** in relation to the 12 aspects of the most recent financial statements listed in **Appendix 3**.*

Specific proposals are in the examples included in **Appendix 2B**.

Two large Division's activities are of recent origin, are perceived by many members to be peripheral to the Society's mission, and appear to have absorbed and be absorbing a great deal of the surplus generated by the Society's other operations. Hence:

4. *Provide to Congress **analyses of the ACS Labs and ADMA Divisions, on an activity costing basis**, so that Congress is informed about their financial state and commitments.*

Specific proposals are in **Appendices 4A and 4B**.

To address requests for information from members:

When questions are asked by members, the requests should be addressed in an appropriate manner. Hence:

5. *Propose to Congress a **policy in relation to requests by members of the Society for information** relating to the Society's finances.*

A number of requests for information are outstanding, and need to be addressed. Hence:

6. *Provide to Congress information that delivers **answers to the questions in Appendix 5**.*

Specific proposals in relation to both of these items are in **Appendix 6**.

Australian Computer Society FTWG
Appendix 1: Periodic Financial Reporting to Congress

Discussion Draft of 18 March 2021

Introduction

Congress members have the responsibility under Rule 8.1 to "determine directions and policies for the Society", and provide "advice to Management Committee ... on strategic planning and otherwise for the betterment of the Society".

In order to perform these functions, and fulfil their obligations, Congress members need an adequate and sufficiently up-to-date understanding of the Society's financial position.

Proposal

Provide Congress-members with financial statements on a quarterly basis, within a few weeks after 30 September, 31 December, 31 March and 30 June, each financial year.

Present unaudited statements, without adjustments for accruals, prepayments, depreciation, amortisation, etc.

Provide line-items at a higher level of granularity than those presented in the published annual statements, sufficient to provide insight into individual activities and business-lines.

For each line-item, show:

- the budget for the relevant period
- the corresponding figure for the previous year
- notes as appropriate, especially for figures that are large, or show significant variances

It is envisaged that an existing report can be applied to this purpose, such as a format already reported to MC and/or senior staff.

An Example

The following is an indication of a way of satisfying those needs in relation to revenue figures. These figures are for a 12-month period. An alternative is cumulative reports for 3, 6, 9 then 12 months. The figures in the table below are merely illustrative, not actual data.

<u>Revenue Item</u>	<u>Actual</u>	<u>Budget</u>	<u>Prev Yr</u>
PPP Membership fees	1,900,000	1,900,000	1,550,000
Individual Membership fees	900,000	900,000	1,000,000
ADMA-Related Membership fees	<u>200,000</u>	<u>200,000</u>	<u>250,000</u>
Total Membership fees	3,000,000	3,000,000	2,800,000
Skills Assessment	38,000,000	34,000,000	30,000,000
Other	<u>3,000,000</u>	<u>2,500,000</u>	<u>2,400,000</u>
Total Professional standards	41,000,000	36,500,000	32,400,000
Professional Year	1,800,000	1,700,000	1,900,000
PD ADMA	100,000	1,000,000	900,000
PD All Other	90,000	100,000	110,000
Conferences	<u>10,000</u>	<u>100,000</u>	<u>90,000</u>
Total Education, PD, Conference	2,000,000	2,900,000	3,000,000
Commissions	10,000	10,000	10,000
Rental income	30,000	50,000	30,000
XXXXX	1,500,000	1,500,000	1,200,000
Interest	1,000,000	800,000	600,000
Other	<u>300,000</u>	<u>250,000</u>	<u>300,000</u>
Total Other	2,840,000	2,610,000	2,140,000
TOTAL	<u>48,840,000</u>	<u>45,010,000</u>	<u>40,340,000</u>

Australian Computer Society FTWG
Appendix 2A: An Outline of ACS Activities, for Congress Members
Discussion Draft of 18 March 2021

Introduction

This document's first purpose is to provide background information to Congress members, at a sufficient level of detail to enable them to evaluate new information as it comes to hand, and perform their functions. These are the determination of directions and policies and the provision of advice to Management Committee on strategic planning and otherwise for the betterment of the Society (Rule 8.1).

The document's second purpose is to provide a basis on which an enhanced description of the Society's activities can be delivered as part of the Management Committee's Report attached to the annual financial statements. This is addressed in Appendix 2B.

Organisation of This Document

The main focus of the document is outward-facing functions. These are organised below in accordance with the most recently-published organisation-chart, of 3Q 2020, with business-lines and activities shown under the senior officer whose portfolio is most directly responsible for it. Activities that are primarily organisational hygiene and other internal cost-centres are grouped together at the end. The list has been checked against the catalogue of professional society functions here: <http://www.rogerclarke.com/SOS/ACS-CP.html#KF>

Because only limited information has been made available in recent years, this draft contains a considerable amount of surmise. **All revenues and costs are indicative only**, and for a non-COVID year.

Assumptions made are 130 EFT total staff, \$50m p.a. of Revenue, \$46m p.a. in total costs. For indicative costing purposes, Employee Benefits Expense (EBE) is treated as \$160,000 p.a. per Equivalent Full-Time post (EFT), Office Accommodation as \$25,000 per EFT, Overheads as \$100,000 per EFT, giving a total per EFT of \$285,000 p.a.

Professional Standards

- **Skills Assessment**

Assessment of IT Skills of Visa Applicants, c.20 staff, c. \$41m revenue p.a.
Staff and Staff-related Costs \$5.7m, Contribution Margin \$35.3m p.a.

- **Member Certification**

Promotion and evaluation of applications for CP/CT, c.3 staff, c.\$0.2m revenue p.a.
Staff and Staff-related Costs \$0.8m, Apparent Cross-subsidy \$0.6m p.a.

- **Ed Provider Accreditation**

Evaluation of applications for institution and/or course approval, c.1 staff, c.\$0.1m revenue p.a.
Staff and Staff-related Costs \$0.3m, Apparent Cross-subsidy \$0.2m p.a.

Education

- **Professional Year**

Management of PY Activities for recent arrivals, c.20 staff, c.\$1.8m revenue p.a.
Staff and Staff-related Costs \$5.7m, Apparent Cross-subsidy \$3.9m p.a.

- **SFIA-Related Services**

Marketing of SFIA-based services to employers, c.5 staff, c.\$0.5m revenue p.a.
Staff and Staff-related Costs \$1.4m, Apparent Cross-subsidy \$1.1m p.a.

COO / Membership, Sales & Marketing

- **PPP**

Marketing of Professional Partnership Program to employers, c.20 staff, c.\$2.2m revenue p.a.
Staff and Staff-related Costs \$5.7m, Apparent Cross-subsidy \$3.5m p.a.

- **Marketing**

Marketing of individual membership to professionals, c.5 staff, c.\$0.6m revenue p.a.
Staff and Staff-related Costs \$0.8m, Apparent Cross-subsidy \$0.2m p.a.

- **Networking Events**

Meetings not designed for Professional Development, c.1 staff, c.\$0.0m revenue p.a.
Staff and Staff-related Costs \$0.3m, Apparent Cross-subsidy \$0.3m p.a.

CFO

- **Professional Development Events**

Marketing of events, c.5 staff, c.\$0.6m revenue p.a.
Staff and Staff-related Costs \$0.8m, Apparent Cross-subsidy \$0.2m p.a.

ACS Labs

- **River, Harbour, City Labs**

Marketing of events, c.10 staff, c.\$0.2m revenue p.a.
Staff and Staff-related Costs \$2.8m, Apparent Cross-subsidy \$2.6m p.a.

- **Startup Catalyst**

Events for Startups, c.4 staff, c.\$0.1m revenue p.a.
Staff and Staff-related Costs \$1.1m, Apparent Cross-subsidy \$1.0m p.a.

ADMA

- **Professional Development Events**

Events in the Data Analytics Space, c.8 staff, c.\$0.2m revenue p.a.
Staff and Staff-related Costs \$2.2m, Apparent Cross-subsidy \$2.0m p.a.

- **Education**

Education in the Data Analytics Space, c.4 staff, c.\$0.2m revenue p.a.
Staff and Staff-related Costs \$1.1m, Apparent Cross-subsidy \$0.9m p.a.

Corporate Affairs

- **Publication**

Information Age, c.3 staff, c.\$0.2m revenue p.a.
Staff and Staff-related Costs \$0.8m, Apparent Cross-subsidy \$0.6m p.a.

- **Public Policy**

Representations, Research, Publications, Political Events, c.4 staff, c.\$0.1m revenue p.a.
Staff and Staff-related Costs \$1.1m, Apparent Cross-subsidy \$1.0m p.a.

Internal / Organisational Hygiene / 'Overhead' Functions

HR, staff development, membership administration, governance, accounting, internal IT, outward-facing IT, strategic initiatives, Branch management, ...
Code of Ethics, professional standards, technical and academic publications, SIGs, support for communities of practice, public outreach, information resources, advocacy for members' interests ...
c.17 staff, c.\$2.3m revenue p.a. (Interest, etc.)
Staff and Staff-related Costs \$4.8m, Other Costs \$10.3m, Apparent Cross-subsidy \$12.8m p.a.

Australian Computer Society FTWG
Appendix 2B: Explanatory Memorandum to the Financial Statements
Discussion Draft of 18 March 2021

Introduction

The Society's membership wants to know what the organisation does, where it earns its revenue, and where it spends it. They need annual reports at a sufficient level of detail to enable them to be aware of their professional association's activities, to be adequately informed about their financial impacts, and to hold the MC, staff and Congress to account.

The formal financial statements are the primary source of information available to Congress and the membership. However, the effect of accounting standards is to make the formal financial statements incomprehensible to the layperson. It is therefore necessary for the formal financial statements to be accompanied by a further document that is not encumbered by the constraints of accounting standards. The conventional term 'Explanatory Memorandum' is proposed.

This document identifies examples of items in the formal documents that may need some further explanation in any given year, so that the members can have an adequate understanding of the Society's operations. Examples are provided for each item, by reference to the most recent financial statements for the financial year to 30 June 2020.

The Management Committee Declaration

This semi-formalised 3-page document precedes the financial statements.

(1) Note 2 – Principal activities

This needs to list the Society's main functions and business-lines, and provide for each:

- a brief explanation of it;
- a meaningful indication of its scale in terms of revenue, effort, cost and outcomes;
- whether it is intended to be, and whether it is, a source of surplus, or a beneficiary of cross-subsidy from other activities; and
- policies re the allocation of surplus arising from it.

An Example, for the financial year ended 30 Jun 2020:

A professional society performs a very wide range of functions. The large majority generate little or no revenue, and must be funded from membership fees plus such other sources of funds as the Society is able to generate.

Beyond membership fees, the primary sources of funding derive from the assessment of the IT skills of overseas visa applicants (a government-granted monopoly to ACS and many other professional societies), together with royalties from administration of the Professional Year scheme for recent arrivals (a separate government-granted monopoly to ACS and some other professional societies), education and professional development activities, and interest on the Society's reserves.

Among the many important functions that are supported by this funding are member certification and membership administration, accreditation of educational service providers, professional development events, networking events, promotion of membership both directly to professionals and students and to employers under the Professional Partners Program (PPP), public policy contributions, publications, SFIA-related activities, Code of Ethics and professional standards work, information resources, advocacy for members' interest, and the wide variety of internal administrative work needed to manage a lively body of employees, contractors and several hundred volunteers.

During 2018-2020, a considerable proportion of the surplus was invested in two new ventures. Over \$4m was spent on the acquisition of a group of industry associations in the data analytics space, with the intention of extending the Society's educational competencies and reach. A further \$2m has been put into workspaces for startups, to assist in the development of the Australian IT industry and its ability to employ ACS members. Both initiatives have encountered headwinds.

Explanations Needed re the Financial Statements

The financial statements are formal documents subject to very specific constraints, in relation to both the 4pp. of tabular data and the >20pp. of Notes. The requirements of accounting standards give rise to a degree of incomprehensibility. The following areas require further explanation:

Revenue

Sufficient information is needed that members can understand the extent to which membership fees support the Society's operation, the extent to which the Society needs, and is dependent upon, revenue from additional sources, and what those sources are.

An Example, for the financial year ended 30 Jun 2020:

Note 4 to the financial statements identifies the Society's revenue using headings that are conventional in accounting terms. However, one of the seven categories represents 80% of the total, so further information is provided here.

The Society's primary sources of funding during the year were membership fees (c. \$3m p.a.), revenue from the assessment of the IT skills of overseas visa applicants (c. \$40m p.a.), royalties from administration of the Professional Year scheme for recent arrivals (c. \$2m p.a.), and interest on the Society's reserves (c. \$2m p.a.).

Membership Fees increased by 11.9% from \$2.9m to \$3.2m. The primary factors in this growth were [?additional memberships arising from the acquisition of the ADMA group ?modest growth in PPP membership].

As a very large proportion of the revenue that supports the Society derives from a single activity, the Management Committee pays a great deal of attention to the vulnerability of the Society to material changes in this program, and to contingency planning.

Employee Benefits Expense

Sufficient information is needed that members can understand the approach the Society adopts to staffing, including employees, casuals and contractors, and any prominent features of the costs involved, such as changes in the scale of operations.

An Example, for the financial year ended 30 Jun 2020:

The Statement of Profit or Loss includes the item Employee Benefits Expense (EBE) in accordance with accounting conventions. However, because of the nature of the Society's operations, EBE represents over half of the total expenditure. So further information is provided here.

The primary components of the c.\$25m were [salaries and wages \$Xm, bonuses \$Xm, superannuation contributions \$Xm, fringe benefits tax \$Xm, lump sum benefits on termination \$Xm, contractors' fees \$Xm, ?...].

EBE evidenced growth of 17.0% year-on-year (\$21.6m to \$25.2m). The primary reasons were [?an additional 20 staff-members resulting from the acquisition of ADMA, ?...].

EBE of c.\$25m divided by the full-time equivalent staff-count during the year of c.130 gives rise to an apparent EBE per EFT of c.\$195,000. This is significantly higher than that for other, comparable organisations of c.\$120,000. The reasons for this very substantial disparity are [EXPLANATION NEEDED HERE].

The EBE attributable to Key Management Personnel evidenced growth of 25% (\$2.0m to \$2.6m). The primary reasons were [?a significant increase in the salary and bonuses to the CEO, ?the addition of 2 executive-level appointments as a result of the acquisition of ADMA and the establishment of an ACS Laboratories Division to support startups, ?...].

Office Accommodation Expenses

Sufficient information is needed that members can understand the approach the Society adopts to office accommodation, including office-accommodation that is sub-let, and any prominent features of the costs involved, such as the quality of premises acquired, and changes in the scale of operations.

An Example, for the financial year ended 30 Jun 2020:

The financial statements show a fall in Occupancy Expenses, but substantial increases are disclosed in Note 5 for Depreciation on Leasehold improvements and Furniture and Fittings, plus a

substantial new item, Depreciation of Right of Use Assets. The changes arise in part from the adoption of a new standard on accounting for leases. To clarify the meaning of the formal statements, further information is provided here.

The expenses associated with office accommodation have climbed steeply over the last few years, including a 60% increase in the most recent financial year to c.\$7m p.a.. The primary reasons were [?an increase in staff-count, resulting in the need for more office-space, ?the launch of startup incubators in three cities, resulting in the acquisition of space to sub-let to startups, ?the decision of the Management Committee to invest in high-quality office-space in the CBDs of the two largest cities that can be used for prestigious events, including with government and other influencers. ?...].

Amortisation of Intangible Assets

Sufficient information is needed that members can understand the approach the Society adopts to intangible assets, and any prominent features of the costs involved, such as its acquisition, the period over which it is amortised, and the prospects of its claimed value being realised.

An Example, for the financial year ended 30 Jun 2020:

This item appeared for the first time this financial year, in Notes 5 and 10.

The assets arose through the acquisition of ADMA, and comprise:

- *Branding* \$0.5m *[amortised ?over 5 years at 20% p.a.]*
- *"Intellectual"* \$0.8m *[amortised ?over 5 years at 20% p.a.]*
- *Goodwill* \$2.8m *[not amortised]*

The outcomes of the strategic analysis, risk analysis and due diligence process were [EXPLANATION NEEDED HERE].

The anticipated scale of additional net revenue generation arising from the acquisitions is [EXPLANATION NEEDED HERE].

Administrative Expenses

Sufficient information is needed that members can understand what is encompassed by this catch-all item, and any prominent features of the costs involved and the changes year-on-year.

An Example, for the financial year ended 30 Jun 2020:

The Statement of Profit or Loss shows growth of 55% (\$2.3m to \$3.6m). The primary reasons for the difference were [?further legal costs relating to the project to convert from an incorporated association to a company limited by guarantee, ?legal costs relating to a court case brought by a member against the Society in the Federal Court, ?...].

The Surplus

Sufficient information is needed that members can understand the net effect of the revenue and costs reported for the year, and policies relating to the allocation of surplus.

An Example, for the financial year ended 30 Jun 2020:

Revenue grew 10.2% (\$45.2m to \$49.7m), but Expenses grew 13.8% (\$40.9m to \$46.5m). The Surplus was \$3.2m on Revenue of \$49.8m, or 4%, less than half the previous year's 9.5%.

The primary reasons were [EXPLANATION NEEDED HERE].

Investment Assets

Sufficient information is needed that members can understand the existence, nature and degree of security of the Society's reserves.

An Example, for the financial year ended 30 Jun 2020:

Note 7 shows that these decreased from \$18.2m to \$17.5m (3.7%). More than 50% of the investments are in local and international shares. After the acquisitions were made, falls occurred in the value of Australian equities of the order of 40%.

The degree of capital security, particularly in the event that urgent access to funds is necessary, is [EXPLANATION NEEDED HERE].

Australian Computer Society FTWG

Appendix 3: Aspects of the 2020 Financial Statements Needing Explanations

Discussion Draft of 18 March 2021

Introduction

Information about the Society's business-lines, revenue, expenditure and surplus is needed by different categories of people, at different levels of granularity, with varying degrees of urgency. The following requirements need to be met:

- **Congress members** need periodic reports on both operational and financial aspects of the organisation as a whole. These need to be at a sufficient level of detail and frequency to enable Congress to fulfil its functions in relation to the determination of directions and policies, and the provision of advice to Management Committee on strategic planning
- **Society members** need to know what the organisation does, where it earns its revenue, and where it spends it. They need annual reports at a sufficient level of detail to enable them to be aware of their professional association's activities, to be adequately informed about their financial impacts, and to hold the MC, staff and Congress to account

The formal financial statements are the primary source of information available to Congress and the membership. **This Appendix identifies a dozen aspects of the financial statements for the last financial year to 30 June 2020 that need clarification.**

Further Information Needed re the Management Committee Declaration

This semi-formalised 3-page document precedes the financial statements.

(1) Note 2 – Principal activities

Each of the Society's principal activities needs to be declared, and the following provided:

- a brief explanation of it;
- a meaningful indication of its scale in terms of revenue, effort, cost and outcomes;
- whether it is intended to be, and whether it is, a source of surplus, or a beneficiary of cross-subsidy from other activities; and
- policies re the allocation of surplus arising from it.

Explanations Needed re the Financial Statements

The financial statements are formal documents that are subject to very specific accounting standards requirements, in relation to both the 4pp. of tabular data and the 22pp. of Notes. Because of the esoteric nature of the document, the following areas require further explanation:

Revenue

(2) Professional Standards Income

This item represents **80% of the total revenue** (Note 4 on p.22).

The primary components were **[EXPLANATION NEEDED HERE]**.

(3) Membership Fees

This item shows **an increase of 11.9%** from \$2.9m to \$3.2m (Note 4 on p.22).

This primary factors were **[EXPLANATION NEEDED HERE]**.

Employee-Related Expenses

(4) Employee Benefits Expense

This item represents **54% of the total expenses** (\$25.2m/\$46.5m).

The primary components were **[EXPLANATION NEEDED HERE]**.

(5) Apparent Expense per Employee

Employee Benefits Expense (EBE) in the financial statements: \$25,231,604
Full-time equivalent staff (FTE) in the Annual Information Statement: 128.83

The ACS shows an EBE per FTE of: \$195,851

That figure for comparable organisations was: \$120,000

(Law Council of Australia c.\$119,000, IE Aust c.\$121,000, RANZCOG c.\$116,000)

The reasons for this very substantial disparity are **[EXPLANATION NEEDED HERE]**.

(6) Rapid Growth

The item "Employee Benefits Expense" evidenced **growth of 17.0%** (\$21.6m to \$25.2m).

The primary reasons were **[EXPLANATION NEEDED HERE]**.

(7) Key Management Personnel Expense

This item evidenced **growth of 25%** (\$2.0m to \$2.6m).

The primary reasons were **[EXPLANATION NEEDED HERE]**.

Other Expenses

(8) Office Accommodation Expenses

The expenses associated with office accommodation are **9 times that of 3 years earlier** **.

The primary reasons were **[EXPLANATION NEEDED HERE]**.

** The following figures are extracted from the last few years' financial statements:

	'17	'18	'19	'20
Total Expenses in \$m	0.8	2.8	4.4	7.1
Apparent 1-Year Growth		250%	57%	61%
Apparent 2-Year Growth			450%	154%
Apparent 3-Year Growth				788%

(9) Amortisation of Intangible Assets

This item appeared for the first time in 2020, at \$0.4m (Notes 5, 10).

The assets were "Acquired via business combination" and comprise:

- Branding \$ 499,967, apparently amortised at 20-25% p.a.
- "Intellectual" \$ 832,664, apparently amortised at 20-25% p.a.
- **Goodwill \$2,801,307**, apparently not amortised

The **outcomes of the strategic analysis, risk analysis and due diligence process** were **[EXPLANATION NEEDED HERE]**.

The **anticipated scale of additional net revenue generation** arising from the acquisitions is **[EXPLANATION NEEDED HERE]**.

(10) Administrative Expenses

This item evidenced **growth of 55%** (\$2.3m to \$3.6m).

The primary reasons were **[EXPLANATION NEEDED HERE]**.

(11) The Surplus

Revenue grew 10.2% (\$45.2m to \$49.7m), but Expenses grew 13.8% (\$40.9m to \$46.5m).

The Surplus was \$3.2m on Revenue of \$49.8m, or 4%, **less than half the previous year's 9.5%**.

The primary reasons were **[EXPLANATION NEEDED HERE]**.

Assets and Liabilities

(12) Investment Assets

These decreased from \$18.2m to \$17.5m (3.7%).

Note 7 on p.23 discloses that more than 50% of the investments are in local and international shares. The table refers to Rule 19 [sic, should be 21]; but the content is unhelpful.

It appears that the acquisitions preceded falls of the order of 40% in Australian equities.

The degree of **capital security, particularly in the event that urgent access to funds is necessary**, is **[EXPLANATION NEEDED HERE]**.

Australian Computer Society FTWG
Appendix 4A: Activity-Costing Analysis – ADMA Division
Discussion Draft of 18 March 2021

This document contains the proposed format for presentation to Congress.

The Investment

Purchase Price

• Consideration Paid	\$2.6m	
• Debts Assumed	\$3.1m	
• (Undocumented Items)	\$0.3m	
less Physical Assets Acquired	0	
less Branding, IP Acquired	(\$1.6m)	
Total Capital Cost		\$4.4m

Acquisition Costs

• Financial	\$0.2m	
• Legal	\$0.2m	
Total Investment Costs		\$0.4m

Total Investment **\$4.8m**

'Goodwill on Acquisition' (Cost \$4.4m - Assets \$1.6m) \$2.8m

Notional Loan Rate 5% p.a.

Notional Amortisation of Investment 5 years @ 20% p.a.

Annual Financial Projection

Revenue:

• Membership	\$50,000	
• Education	\$100,000	
• Other	\$0	
Total Revenue		\$150,000

Expenses:

• Employee Benefits Expense	\$2,800,000	
• Office Accommodation	\$470,000	
• Amortisation of Branding, IP	\$420,000	
Total Expenses		<u>(\$3,690,000)</u>

Contribution Margin **(\$3,540,000)**

• Share of Operating Overheads (\$1,180,000)

Operating Margin **(\$4,720,000)**

Notional Interest (\$240,000)

Nett Margin **(\$4,960,000)**

Notional Repayment of Net Investment over 5 years (\$640,000)

Surplus / (Deficit) **(\$5,600,000)**

Activity-Costing Analysis – ADMA Division
SUPPORTING NOTES

'Notes' means Notes to the 2020 financial statements.

The data is a mix of actuals and educated guesswork, to be replaced by indicative values reflecting actuals during 2019-2021, with Annual Projection being for a non-COVID year.

Purchase Price

Note 18. (However, the information contained in the Note is internally inconsistent. In order to achieve a balance, an additional, undocumented investment of \$0.3m has been interpolated).

Acquisition Costs

No information is available, and hence these are just assumptions.

Goodwill on Acquisition

Notes 18, 20.

Membership Revenue

Assumption, based on the net small increase in total Membership Fees from 2019 to 2020.

Education Revenue

Note 23. Total Revenue in FY 2020 was \$2.1m, up by \$0.8m.

An ADMA executive told Congress on 10 Feb 21 the Division "has a mandate to achieve breakeven". However, the CEO stated to me on 11 Mar 21 that "around 95% of Education revenue is from PY Program", which leaves only \$100,000 for all other sources combined.

Employee Benefits Expense

The Organisation Chart in 3Q 2020 showed 15 employed staff and 5 approved positions vacant. The average staff cost is presumably higher than the average for ACS as a whole. EBE per EFT is somewhere between \$120,000 and \$195,000, say \$160,000 p.a. x say 17.5.

Office Accommodation Expense

Total Accommodation Expense is \$7m p.a.

It houses say 260 staff, contractors and start-up people, giving a cost of \$27,000 p.p. x 17.5.

Amortisation of Branding, IP

Notes 3(d)(iv), 5, 10, 18, 20, 23.

Total \$109,000+\$212,000 in 2020, none in 2019, hence fully attributable to ADMA Division.

That \$331,000 was for 9-1/2 months, which grossed up to 12 months = \$420,000.

Share of Operating Overheads

The remaining costs to be apportioned over business-lines comprise all expenses other than EBE (\$25.5m), Office Accommodation (\$7m) and Amortisation of Branding (\$0.5m), which together total \$33m of \$46.5m (Revenue \$50m less Surplus \$3.5m), leaving a net \$13.5m.

A head-count base suggests 17.5 / 120 (as declared to ACNC), but say 17.5 / 200 = \$1,180,000.

Notional Repayment of Net Investment over 5 years

Total Investment of \$4.8m less \$1.6m Branding and IP separately amortised = \$3,200,000.

Notionally repaid over 5 years @ 20% p.a., straight-line.

Note 18(a) says "The acquired business contributed a loss of \$1,008,508 to the results of the Group at 30 June 2020". This is for 9-/12 months of the year, is presumably based on Contribution Margin only, but appears to be too low. Note 20 refers to "a pre-acquisition loss of \$2 million in FY19".

AADL liquidated one year after ACS paid it \$2.6m and relieved it of \$3.5m in debts, i.e. it was ailing.

Australian Computer Society FTWG
Appendix 4B: Activity-Costing Analysis – ACS Labs Division
Discussion Draft of 18 March 2021

This document contains the proposed format for presentation to Congress.

The Investment

Purchase Price of the RCL Subsidiary

• Consideration (mostly by debt cancellation)	\$1.0m	
• Debts Assumed	\$1.0m	
less Physical Assets Acquired	(\$1.44m)	
Total Capital Cost		\$0.56m

Acquisition Costs **\$0.16m**

Total Investment in RCL **\$0.72m**

'Goodwill on Acquisition' \$0.56m

Notional Loan Rate 5% p.a.

Notional Amortisation of Investment 5 years @ 20% p.a.

Investment in HCL and BCL

No information is available on the funds invested, so a notional figure is \$0.28m

Total Investment **\$1.00m**

Annual Financial Projection

Revenue:

• Rental Income	\$50,000	
• Other	\$0	
Total Revenue		\$50,000

Expenses:

• Employee Benefit Expense	\$1,760,000	
• Office Accommodation – Relevant ACS Staff	\$300,000	
• Office Accommodation – Start-ups	\$1,750,000	
• Amortisation of Branding, IP	\$10,000	

Total Expenses **(\$3,820,000)**

Contribution Margin **(\$3,770,000)**

• Share of Operating Overheads (\$2,170,000)

Operating Margin **(\$5,940,000)**

Notional Interest (\$50,000)

Nett Margin **(\$5,990,000)**

Notional Repayment of Net Investment over 5 years (\$200,000)

Surplus / (Deficit) **(\$6,190,000)**

Activity-Costing Analysis – ACS Labs

SUPPORTING NOTES

'Note XX-YY' means a Note to the 2019 or 2020 financial statements respectively.

The data is primarily educated guesswork, to be replaced by indicative values reflecting actuals during 2019-2021, with the Annual Projection being for a non-COVID year.

RCL is a subsidiary acquired in September 2019, but results are consolidated.
HCL and BCL are internal to ACS, and commenced c. 2Q 2019 and 3Q 2019 respectively.
Neither HCL nor BCL were mentioned in the 2019 or 2020 financial statements, but see Info Age, 16 Apr 2019, <https://ia.acs.org.au/article/2019/hunting-for-australia-s-next-great-innovation.html> and 1 Aug 2019, <https://ia.acs.org.au/article/2019/leveraging-opportunities-to-success.html>

Purchase Price of RCL

Note 2-19 to the MC's Report says:

"On 28 September 2018, The Association, through its subsidiary Technology Australia acquired 100% of the ordinary shares of River City Labs Pty Ltd (the RCL Group) and its controlled entities ... The RCL Group's purpose is to foster the growth of start-up companies, through providing resources to empower, support and connect entrepreneurs to achieve their potential ...".

Note 19-19 indicates a price of \$1m, in return for net \$0.44m in assets.

Note 19-19 states "The RCL group has historically been loss making".

"ACS has already committed \$7.5 million" Info Age, 7 Sep 2018
<https://ia.acs.org.au/article/2018/acs-acquires-river-city-labs.html>

Acquisition Costs of RCL

Note 19-19 declares "\$161 443 on legal fees and due diligence costs".

Goodwill on Acquisition of RCL

Note 19-19 declares Goodwill from the transaction as being \$561,000.

Rental Income

Note 4-20 declares \$30,000, presumably for all three Labs combined.

Employee Benefits Expense

The Organisation Chart in 3Q 2020 showed 9 employed staff and 4 approved positions vacant.
The average staff cost is presumably higher than the average for ACS as a whole. EBE per EFT is somewhere between \$120,000 and \$195,000, say \$160,000 p.a. x say 11 = \$1,760,000.

Office Accommodation Expense

Total Accommodation Expense is \$7m p.a.

It houses say 260 people, giving a cost of \$27,000 x 11m staff = \$297,000.

Assuming a weighted-average 25% of accommodation is occupied by start-ups, add \$1.75m.
(An alternative approach would be to unpack office fitout, etc. attributable to the three Labs).

Amortisation of Branding, IP

No information is provided, so a nominal amount has been inserted.

Share of Operating Overheads

The remaining costs to be apportioned over business-lines comprise all expenses other than EBE (\$25.5m), Office Accommodation (\$7m) and Amortisation of Branding (\$0.5m), which together total \$33m of \$46.5m (Revenue \$50m less Surplus \$3.5m), leaving a net \$13.5m.

Allocation according to staff (10%) plus Start-up space (10%) suggests 15% overall = \$2.17m.

Notional Repayment of Net Investment over 5 years

Total Investment of \$1m, notionally repaid over 5 years @ 20% p.a., straight-line.

Australian Computer Society FTWG
Appendix 5: Specific Questions Needing to be Addressed
Discussion Draft of 18 March 2021

Introduction

From time to time, Congress members and Society members ask questions relating to business operations, items of expenditure, and financial statements. There may be occasions when requests are unreasonable or unreasonably excessive. Generally, however, as a professional society, the ACS should provide informative responses to requests for information, answering the questions.

Several outstanding questions asked during 2019-20 remain to be addressed. They raise issues of consequence, and Congress needs to have background about each of them, and about relevant existing policies.

Meaningful responses then need to be provided to the individual(s) who raised them. Those responses need to include factual information, reference to the relevant policies in place at the time, their appropriateness, the extent to which they were respected, and any further aspects arising from the new policy in relation to responses to requests for information.

Outstanding Questions

1. What was the cost to the ACS and the direct benefit to members of:
 - the visit by members of the Management Committee to the Consumer Electronics Show in Las Vegas in 2019?
 - the then CEO's trip to Silicon Valley in 2019?
2. What was the cost to purchase ADMA?
What were the assets that were acquired, and the basis of their valuation?
3. Was any due diligence done on the purchase of River City Labs?
What did that due diligence reveal?
4. What did it cost the ACS to join the Davos Economic Forum?
What was the cost of the ACS delegation to Davos?
What benefits did it bring the ACS?
5. What was the cost of the 'bi-partisan trip for Federal members of Parliament' to Estonia, Finland and London, hosted by the then President?
What benefit did this provide to members?

Australian Computer Society FTWG
Appendix 6: Policy re Member's Requests for Information
Discussion Draft of 18 March 2021

Introduction

From time to time, members of the Society ask questions of office-bearers or staff.

This document proposes a Policy in relation to the handling of such requests for information.

In the second part of the document, an indication is provided of approaches that are consistent with the Policy, and that could be adopted in relation to several requests for information that have been outstanding for some time.

Policy in relation to the Handling of Members' Requests for Information

1. This Policy applies to the handling of requests from members for information in relation to the operations of the Society, including its activities, business-lines, premises, financial matters and the like. It is distinct from, but complementary to, the Dispute Resolution Policy and process, which is a legal obligation and necessarily more carefully elaborated.
2. **An unreasonable request** is to be politely declined, with a brief explanation as to why it is unreasonable, and, where appropriate, a pointer to sources of information relevant to the topic the person is seeking information about.
3. **A request for material of a genuinely confidential nature** is to be politely declined, with a brief explanation as to why the information is confidential, and where appropriate, a pointer to sources of information relevant to the topic the person is seeking information about.
4. **A request for information at an unreasonable level of detail** is to be politely declined, with a brief explanation to that effect, and either a response of a more general nature to the question asked, or an offer to provide such a response, and, where appropriate, a pointer to sources of information relevant to the topic the person is seeking information about.
5. **All other requests** are to be responded to, reasonably promptly, answering the question as asked, with relevant factual information rather than generalities, and not in an evasive manner. The purposes are to inform the enquirer, and to avoid disappointing them or aggravating any concerns that may underlie the enquiry.
6. **Requests by or on behalf of multiple members** are likely to warrant greater investment in the preparation of the response.

Examples of Applications of the Policy

1. *What was the cost to the ACS and the direct benefit to members of:*
 - *the visit by members of the Management Committee to the Consumer Electronics Show in Las Vegas in 2019?*
 - *the then CEO's trip to Silicon Valley in 2019?*

The total cost for the [NUMBER OF] people in the delegation to Las Vegas was [INSERT AMOUNT], comprising [INSERT AMOUNT] for travel, [INSERT AMOUNT] for accommodation, [INSERT AMOUNT] for sustenance and incidentals, and [INSERT AMOUNT] in other expenses.

The total cost for the then CEO's trip to Silicon Valley was [INSERT AMOUNT], comprising [INSERT AMOUNT] for travel, [INSERT AMOUNT] for accommodation, [INSERT AMOUNT] for sustenance and incidentals, and [INSERT AMOUNT] in other expenses.

The benefits to the Society and its members were materially enhanced understanding by the Society's governing committee of the current state of, and emergent trends in the IT industry, with particular reference to [MAIN THEME OF THE TRIP(S).]

2. *What was the cost to purchase ADMA?
What were the assets that were acquired, and the basis of their valuation?*

The Purchase Price was \$4.4m.

This comprised Consideration Paid of \$2.6m, Debts Assumed of \$3.4m, less Branding and IP Acquired valued at \$1.6m. In accordance with standard accounting practice, the amount paid above and beyond the fair value of the assets, which was \$2.8m, was recognised as Goodwill on Acquisition.

The assets acquired comprised established brandnames and logos used by the group and by the four associations within the group, and course materials used in education on data analysis topics. The valuation process considered the following factors: [INSERT EXPLANATION].

3. *Was any due diligence done on the purchase of River City Labs?
What did that due diligence reveal?*

Due diligence was conducted using a process performed by [ORGANISATION], applying [SHORT DESCRIPTION OF METHOD].

The results of the due diligence were [INSERT EXPLANATION].

4. *What did it cost the ACS to join the Davos Economic Forum?
What was the cost of the ACS delegation to Davos?
What benefits did it bring the ACS?*

The amount paid was the joining fee for a professional association of the relevant size, which was [INSERT AMOUNT].

The total cost for the [NUMBER OF] people in the delegation was [INSERT AMOUNT], comprising [INSERT AMOUNT] for participation, [INSERT AMOUNT] for travel, [INSERT AMOUNT] for accommodation, [INSERT AMOUNT] for sustenance and incidentals, and [INSERT AMOUNT] in other expenses.

The benefits to the Society and its members were a presence at a major world event, as representatives of Australia and of its IT professional association, opportunities to make contributions to sessions that involved data, data sharing and data standards, and the running of a session on Privacy Preserving Data Sharing. This was based on the ACS's technical whitepaper on the topic, but linked to the conference theme of contributing to sustainability goals.

5. *What was the cost of the 'bi-partisan trip for Federal members of Parliament' to Estonia, Finland and London, hosted by the then President?
What benefit did this provide to members?*

The total cost for the [NUMBER OF] people in the delegation was [INSERT AMOUNT], comprising [INSERT AMOUNT] for travel, [INSERT AMOUNT] for accommodation, [INSERT AMOUNT] for sustenance and incidentals, and [INSERT AMOUNT] in other expenses.

The benefits to the Society and its members were exposure to, and interactions with, members of parliament selected as being relevant to ACS interests, increased understanding of IT and the ACS among parliamentarians, and greater opportunity for the ACS to influence policy debates.