

GS XXX

(~~November~~ August 2010)

Guidance Statement GS XXX
***Auditing Fundraising
Revenue of Not for Profit
Entities***

Issued by the Auditing and Assurance Standards Board

DISCLAIMER

This document contains draft proposals to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions and/or proposals to be contained in a published Exposure Draft or Auditing Standard. No responsibility is taken by the AUASB for the results of reliance, actions or omissions to act on the basis of any information contained in this document (including appendices), or for any errors or omissions in it.



Australian Government

Auditing and Assurance Standards Board

Obtaining a Copy of this Guidance Statement

This Guidance Statement is available on the AUASB website:
www.auasb.gov.au

~~Alternatively, any individual or organisation may obtain one printed copy of this Guidance Statement by contacting AUASB contact details:~~

Auditing and Assurance Standards Board Phone: (03) 8080 7400
Level 7, 600 Bourke Street Fax: (03) 8080 7450
Melbourne Victoria 3000 E-mail: enquiries@auasb.gov.au
AUSTRALIA

Postal Address:
PO Box 204
Collins Street West
Melbourne Victoria 8007
AUSTRALIA

COPYRIGHT

© 2010 Auditing and Assurance Standards Board (AUASB). The text, graphics and layout of this Guidance Statement are protected by Australian copyright law and the comparable law of other countries. Reproduction within Australia in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgment of the source. Requests and enquiries concerning reproduction and rights for commercial purposes within Australia should be addressed to the Executive Director, Auditing and Assurance Standards Board, PO Box 204, Collins Street West, Melbourne Victoria 8007. Otherwise, no part of the Guidance Statement may be reproduced, stored or transmitted in any form or by any means without the prior written permission of the AUASB except as permitted by law.

ISSN 1833-7600

CONTENTS

AUTHORITY STATEMENT

	<i>Paragraphs</i>
Application	1
<u>Issuance</u> Operative Date	2
Introduction	3-6
Characteristics of <u>Not for Profit Entities</u> Charitable Entities	7
Regulatory Framework Affecting Charitable Entities <u>Not for Profit Entities</u>	8-10
Nature of Voluntary Revenue <u>Fundraising Revenue</u>	11-13
Internal Control	14
The Audit of <u>Voluntary Revenue</u> Fundraising Revenue	
Audit <u>Planning</u> Strategy	15
Completeness of Voluntary Revenue <u>Fundraising Revenue</u>	16-18
Audit Reporting	19-21
Conformity with International Pronouncements	22
Appendix 1: Example Controls and Audit Procedures Relating to Voluntary Revenue <u>Fundraising Revenue</u>	
Appendix 2: Example of a Qualified Audit Report (Limitation of Scope) for a Charitable Entity <u>Not for Profit Entity</u>	
Appendix 3: <u>Example of a Qualified Review Report (Limitation of Scope) for a Not for Profit Entity</u> Audit of Voluntary Revenue and Types of Audit Opinions	

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) ~~formulates~~~~issues~~ Guidance Statement GS XXX *Auditing Fundraising Revenue of Not for Profit Entities* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*, for the purposes of providing guidance on auditing and assurance matters.

This Guidance Statement provides guidance to assist the auditor to fulfil the objectives of the audit or assurance engagement. It includes explanatory material on specific matters for the purposes of understanding and complying with AUASB Standards. The auditor exercises professional judgement when using this Guidance Statement.

The Guidance Statement does not prescribe or create new ~~mandatory~~~~Requirements~~.

Dated:-

M H Kelsall
Chairman - AUASB

GUIDANCE STATEMENT GS XXX

Auditing Fundraising Revenue of Not for Profit Entities

Application

- 1 This Guidance Statement has been formulated by the Auditing and Assurance Standards Board (AUASB) to provide guidance to auditors on the factors to consider when determining whether sufficient appropriate audit evidence has been obtained to form an opinion on the completeness of fundraising revenue for not for profit entities. ~~<type here>~~

Operative Issuance Date

- 2 This Guidance Statement is ~~operative-issued~~ on 1 March 2011 and replaces AGS 1054 *Auditing Revenue of Charitable Entities* which was issued in July 2002.

Introduction

- 3 Australian Auditing Standards (ASASs) contain the basic principles ~~and essential procedures~~ together with related guidance that apply to the audit of the financial report of any entity, including a ~~not for profit charitable~~ entity, irrespective of their size, legal form, or the nature of their activities. However, the ~~Auditing & Assurance Standards Board (AUASB)~~ recognises that the audit of ~~charitable entities~~ not for profit entities gives rise to a number of specific audit issues, a significant one of which is forming a conclusion about the completeness assertion in relation to fundraising revenue from ~~voluntary~~ sources such as donations, appeals, raffles and other fundraising activities ~~and other forms of contributions~~.
- 4 For some of the larger not for profit entities the proportion of fundraising revenue derived from cash donations and other cash based fundraising activities appears to be on the decline as a percentage of total revenue. This may in part be because the industry has become more sophisticated and targeted in its collection methods e.g. monthly subscriptions using standing orders, credit card transactions and one-off bequests.

45 From an audit perspective, there can often be uncertainty about whether a ~~not for profit~~charitable entity has ~~obtained~~received all ~~voluntary revenue~~fundraising revenue to which it has a right ~~to receive~~ from its respective fundraising or other revenue generating activities. Consequently, an auditor may find it difficult

4to perform ~~the~~ tests of controls and substantive procedures that are necessary to reduce ~~audit assurance engagement~~ risk, particularly ~~in~~ respect of the completeness of ~~voluntary fundraising~~ -revenue, to an acceptable level. When such a scope limitation exists, the auditor considers

Guidance Statement GS XXX Auditing Fundraising Revenue of Not for Profit Entities

4. Expressing a qualified opinion. However, the expression of a qualified opinion in respect of the completeness of ~~voluntary revenue~~ fundraising revenue ought ~~not to~~ occur as a matter of course for all ~~charitable entities~~ not for profit entities that receive ~~voluntary fundraising~~ revenue, as consideration must also be given to materiality and mitigation of risks through internal control structures.

5. The purpose of this Auditing Guidance Statement (AGS) is to provide guidance to auditors on the factors to consider when determining whether sufficient appropriate audit evidence can be obtained to provide an objective basis for forming an opinion about the completeness of revenue. This AGS also contains an Appendix which outlines various audit risks associated with different sources of voluntary revenue and indicative audit procedures that may be adopted for the audit of each source of voluntary revenue.

6. The ~~nature and extent of the~~ guidance provided in this AGS is applicable to all audits of ~~charitable entities~~ not for profit entities and is designed to assist the auditor in exercising professional judgement in the application of the ASAs. This guidance statement also contains Appendix 1 which outlines various audit risks associated with different sources of fundraising revenue and indicative audit procedures that may be adopted for each source of fundraising revenue. The guidance provided may also assist in the audit of other not for profit entities. The AGS does not provide detailed guidance of a procedural nature, as this may undermine the proper exercise of professional judgement in auditing.

Characteristics of a Charitable Entity Not for Profit Entity

7. For ~~charitable entities~~ not for profit entities, significant diversity can exist in their activities and operations, size, and legal structures. There is also significant public interest in the accountability of ~~not for profit entities~~ charities, because ~~for example~~, they are generally supported by ~~voluntary~~ voluntary contributions of both physical and financial resources and their purpose is largely to serve some public need, as opposed to being in business for profit. To varying degrees, such characteristics impact on the audit of ~~charitable entities~~ not for profit entities, including the audit of ~~voluntary revenue~~ fundraising revenue.

Regulatory Framework Affecting a Charitable Entity Not for Profit Entity

Guidance Statement GS XXX Auditing Fundraising Revenue of Not for Profit Entities

8. Auditing Standard AUS 202 “Objective and General Principles Governing an Audit of a Financial Report” paragraph .07 states: “The procedures required to conduct an audit in accordance with AUSs should be determined by the auditor having regard to the requirements of AUSs, legislation, regulations and, when appropriate, the terms of the audit engagement and reporting requirements.”

9.8 The regulatory framework for ~~charitable entities~~ not for profit entities can be complex. ~~Charitable entities~~ Not for profit entities may operate under a variety of legal structures, such as a company limited by guarantee, a trust, an incorporated or unincorporated association, Royal Charter or pursuant to legislation enacted specifically to establish the ~~charitable~~ entity (e.g. Charitable Fundraising Act 1991). Each of these ~~above~~ legal structures may impose specific financial reporting and auditing requirements. A ~~not for profit~~ charitable entity’s governing documents may prescribe specific disclosure requirements to be made in its financial report or other responsibilities which impact on the scope of the audit. The legal structure may also affect the financial reporting framework, for example, the extent to which compliance with Australian Accounting Standards is required.

9.9 For a ~~not for profit entity~~ that is a company limited by guarantee further consideration must be given to the recent changes to the Corporations Act 2001 refer Corporations Amendment (Corporate Reporting Reform) Act 2010 which establishes a three tier system for these entities based on annual revenue and the status of the entity, as to whether they are required to prepare a financial report and have the report audited or reviewed. If the company limited by guarantee meets the criteria and is able to conduct a review instead of an audit this guidance statement provides an illustration of a Qualified Review Report (Limitation of Scope) as set out in Appendix 3. For further information refer to ASRE 2415 Review of a Financial Report - Company Limited by Guarantee.

10 The conduct of some activities undertaken by ~~charitable entities~~ not for profit entities, for example, major fundraising events or other activities associated ~~therewith,~~ therewith may be governed by specific regulations. Such regulations may prescribe compliance and reporting obligations by the entity’s governing body and the auditor in connection with the particular event. Any material non-compliance with these regulations could have a significant financial impact should any limitation be placed on the ~~not for profit~~ charitable entity undertaking similar activities in the future.

Guidance Statement GS XXX Auditing Fundraising Revenue of Not for Profit Entities

Nature of ~~Voluntary Revenue~~ Fundraising Revenue

- 11 The revenue of ~~charitable entities~~ not for profit entities may be derived from a variety of sources; ~~such as voluntary~~ cash donations from members of the public, donated materials, ~~and~~ restricted and unrestricted grants from government. ~~Voluntary revenue~~ Fundraising revenue may be obtained from street, door-to-door or postal collections, special events or other methods of fundraising. ~~Voluntary revenue~~ Revenue from fundraising activities can be geographically dispersed, and may be directed to a not for profit ~~charitable~~ entity from professional or voluntary fundraisers. However, unlike revenue of a for profit business entities, the collection of such revenue may not be supported by invoices or equivalent documentation, or subject to internal controls commonly found in a for profit business entities. ~~In contrast, to business entities, charitable entities earn their voluntary revenue from persons who do not receive or expect to receive a direct benefit in exchange.~~ Consequently, from an audit perspective the control systems usually found in a for profit business environment may not be present for some sources of ~~voluntary revenue~~ fundraising revenue.
- 12 It can sometimes be difficult to accurately estimate the level of fundraising revenue from donations, contributions or grants. This is generally because ~~for example~~:
- (a) donors' patterns of giving may change, due for example, to economic hardship or competing demands on limited resources; and
 - (b) some contributions, such as grants to undertake particular activities, being dependent on a tendering process. Such funding decisions are usually based on considerations by third parties over whom the not for profit ~~charitable~~ entity has little influence. Receipt of these funds can be for a specific purpose, with their use subject to compliance with specific conditions.
- 13 It may be difficult to establish a relationship between donations and other amounts in the financial report, as expenditure levels may not have any direct relationship with such fundraising revenue.

Internal Control

- 14 It is important that the governing body of a not for profit ~~charitable~~ entity maintains an effective internal control structure over its ~~their~~

Guidance Statement GS XXX Auditing Fundraising Revenue of Not for Profit Entities

activities. The governing body has responsibility for ensuring that all ~~voluntary fundraising~~ and other revenues to which the ~~not for profit~~~~charitable~~ entity gains control are accounted for properly. This involves establishing controls to ensure that ~~voluntary revenue fundraising revenue~~ is recorded correctly in the financial records of the ~~entity~~~~charity~~, and that the revenue recognised in the financial report is ~~calculated~~ in accordance with ~~Australian~~ Accounting Standards and the entity's accounting policies adopted for revenue recognition¹. Many aspects of a ~~not for profit~~~~charity's~~ control environment and individual control procedures will be the same as those of a ~~for profit~~ business entity. However, the internal control structures for ~~a charitable entities~~~~not for profit entity~~ are likely to be affected, to varying degrees, by the following factors:

- (a) limited resources being available to achieve internal control objectives, ~~as because~~ generally ~~a charitable entities~~~~not for profit entity~~ keeps administrative staff and management tools to a minimum so that resources are allocated to activities that will help ~~them~~ achieve ~~their~~ mission;
- (b) the likelihood that volunteers will be involved in the ~~not for profit~~~~charitable~~ entity. The involvement of volunteers can range from serving in a voluntary capacity on the ~~not for profit~~~~charitable~~ entity's governing board to daily involvement in the entity's operations or management, including performing accounting ~~functions~~ and fundraising ~~functions~~;
- (c) the culture that underlies various facets of the control environment, including attitudes towards the importance of accountability, how authority and responsibility are assigned, and personnel management policies and practices;
- (d) the existence of any externally imposed requirements by contributors, or national or international bodies affiliated with the ~~not for profit~~~~charitable~~ entity who may require certain control procedures be implemented, such as ensuring that certain expenses are approved by the governing body;
- (e) the regulatory requirements relating to its fundraising activities;

¹ See paragraphs 77 – 80, AASB ED 180 *Income from Non-exchange Transactions (Taxes and Transfers)*, to be issued as a AASB Standard in June 2011.

Guidance Statement GS XXX Auditing Fundraising Revenue of Not for Profit Entities

- (f) the existence of accountability requirements over operations in the form of key performance indicators, for example the ratio of organisational and fundraising expenditure to fundraising revenue, or cost of fundraising to funds raised; and
- (g) where specialist fundraisers or other non-controlled entities undertake fundraising on behalf of a not for profit charitable entity, there may be difficulties in establishing whether the entity receives all the revenue over which it is perceived to have gained control.

The Audit of Voluntary Revenue Fundraising Revenue

Audit Planning Strategy

15 In forming an opinion on management's assertions about whether voluntary revenue fundraising revenue is presented fairly in all material respects, properly stated the auditor develops an audit plan strategy based on an assessment of:

- (a) (a) inherent risk and control risk – in accordance with ASA 315 Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment Auditing Standard AUS 402 "Risk Assessments and Internal Controls". For the audit of voluntary revenue fundraising revenue, as well as other material account balances or classes of transactions, the auditor assesses inherent risk and obtains an understanding of the internal control structure to assess audit control risk, and to determine whether the evaluation and testing of controls and the application of substantive tests will reduce assurance engagement audit risk to an acceptably low level with respect to the assertions about the completeness and recording of voluntary revenue fundraising revenue; and
- (b) (b) the materiality of voluntary revenue fundraising revenue – in accordance with Auditing Standard AUS 306 "Materiality and Audit Adjustments" ASA 320 Materiality in Planning and Performing an Audit, and the discussion of materiality in Accounting Standards AASB 1031 AAS 5 "Materiality and Audit Adjustments" and Accounting Standards AASB 1001/AAS 6 "Accounting Policies". In determining the materiality of voluntary revenue fundraising revenue, qualitative materiality considerations may be

Guidance Statement GS XXX Auditing Fundraising Revenue of Not for Profit Entities

significant, given the characteristics of a charitable entities not for profit entity, and the nature of and sources from which voluntary revenue fundraising revenue is derived. For example, public awareness or perception of any misappropriation of funds donated to a charity, due to lack of controls over the collection or recording of donations, or misuse of funds by a charitable entity, even if of a seemingly immaterial amount, may nonetheless result in a breach of donors' trust, and possibly result in their decision not to make further donations to a particular not for profit entity charity. Such events may severely damage the public reputation of the entity, and its ability to undertake current and future operations.

Completeness of Voluntary Revenue Fundraising Revenue

- 16 Auditing Standard ASA 315 AUS 502 "Audit Evidence" states that generally audit evidence is obtained regarding each financial report assertion states that "the auditor needs to shall perform risk assessment procedures to provide a basis for the identification and assessment of risks of material misstatement at the financial report and assertion levels". Sufficient appropriate audit evidence needs to be obtained to provide a basis on which to conclude whether the voluntary revenue fundraising revenue included in a not for profit charitable entity's financial report is, in all material respects, complete." Risk assessment procedures by themselves, however, do not provide sufficient appropriate audit evidence on which to base the audit opinion". In some cases there may be a significant assurance engagement audit risk that voluntary revenue fundraising revenue may not be recorded, and consequently may be materially understated and ("incomplete").
- 17 It is sometimes not possible for the auditor to obtain reasonable assurance about whether voluntary revenue fundraising revenue from all sources to which a not for profit charitable entity is entitled is received and recorded by the entity. However, as the revenue of each charitable entity may be derived from, and obtained by, different sources and methods, each source has its own distinct inherent and control risk. In assessing whether voluntary revenue fundraising revenue is properly stated the auditor's considerations may include an assessment of the following:
- (a) nature of the various sources of voluntary revenue fundraising revenue received by the not for profit charitable entity, the risks associated with their

Guidance Statement GS XXX Auditing Fundraising Revenue of Not for Profit Entities

method of receipt, including any specific risks in the context of the entity's activities;

- (b) effectiveness of the controls that are applied, given that some controls can usually be established for each source of ~~voluntary revenue~~ fundraising revenue. The controls, they in turn may assist in evaluating when an entity gains control of its fundraising revenue for the purposes of recognising revenue in its financial statements report; and
- (c) materiality of each source of ~~voluntary revenue~~ fundraising revenue in relation to all of the not for profit charitable entity's revenue.

Appendix 1 to this ~~guidance statement~~ AGS sets out, for illustrative purposes only, the risks associated with various sources of ~~voluntary revenue~~ fundraising revenue, the controls which a not for profit charitable entity may implement in respect of those fundraising revenues, and some indicative audit procedures which the auditor may consider in relation to the audit of each source of ~~voluntary revenue~~ fundraising revenue.

~~18~~ In accordance with ASA 330 *The Auditor's Responses to Assessed Risks*, if the auditor has not obtained sufficient appropriate audit evidence as to a material financial report assertion, the auditor shall attempt to obtain further audit evidence. If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall express a qualified opinion or disclaim an opinion on the financial report. the auditor shall design and perform further audit procedures whose nature, timing, and extent based on and are responsive to the assessed risks of material misstatement at the assertion level". "Based on the audit procedures performed and the audit evidence obtained, the auditor shall evaluate before the conclusion of the audit whether the assessments of the risks of material misstatement at the assertion level remain appropriate".

Audit Reporting

~~18~~19 Where the auditor obtains sufficient appropriate audit evidence to conclude that ~~voluntary revenue~~ fundraising revenue reported in a not for profit charitable entity's financial report is, in all material respects, presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements, the auditor

Guidance Statement GS XXX Auditing Fundraising Revenue of Not for Profit Entities

issues an unqualified audit report ~~on these grounds~~. This may be the case where for example, a ~~not for profit~~ charitable entity receives most of its ~~voluntary revenue~~ fundraising revenue in the form of grants, contributions or fees, and only an immaterial amount from cash donations and other fundraising. In this instance, audit evidence in relation to the completeness of revenues received from these sources, is likely to provide sufficient appropriate audit evidence that revenue is, in all material respects, presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements.

1920 However, a ~~not for profit~~ charitable entity may ~~derive~~ have a material proportion of its ~~voluntary revenue~~ fundraising revenue from sources for which there are limited controls, as it may be impracticable to maintain effective controls prior to the recording of ~~voluntary revenue~~ fundraising revenue in the financial records. Accordingly, it may not be possible to obtain reasonable assurance about the completeness of ~~voluntary revenue~~ fundraising revenue from these sources. In the absence of other evidence, and where ~~voluntary revenue~~ fundraising revenue is material, the scope of the auditor's work is limited in so far as being able to obtain sufficient appropriate audit evidence to conclude whether the financial records reflect ~~voluntary revenue~~ fundraising revenue from the point at which the ~~not for profit~~ charitable entity gained control. ~~Therefore, in accordance with AUS 502.18 "Audit Evidence", where substantial doubt remains as to a material financial report assertion, such as the completeness of revenue, and the auditor has been unable to obtain sufficient appropriate audit evidence, "... a scope limitation exists, and the auditor should, in accordance with AUS 702 'The Audit Report on a General Purpose Financial Report', express a qualified opinion".~~

21 ASA 705 Modifications to the Opinion in the Independent Auditor's Report outlines the circumstances when a modification to the auditor's opinion is required including when the auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial report as a whole is free from material misstatement. In these circumstances the auditor would issue an except for opinion as illustrated in Appendix 2.

20AUS 702 "The Audit Report on a General Purpose Financial Report", requires an "except for" opinion to be expressed if the scope limitation is material but not extreme. In situations where the scope limitation is extreme the auditor will need to express in the audit report an "inability to form an opinion". Further guidance

Guidance Statement GS XXX Auditing Fundraising Revenue of Not for Profit Entities

~~*is provided in AUS 702.53 to .56. The wording of the auditor's report indicates that the auditor's opinion "...is qualified as to the effects on the financial report of such adjustments, if any, as might have been required had the limitation not existed" (AUS 702.56). An example of a qualified audit report is included in Appendix 2 to this AGS.*~~

Conformity with International Pronouncements

21 — There is no equivalent International Auditing Practice Statement (IAPS) to this Guidance Statement.

22 —

Appendix 1

(Ref: Para.)

APPENDIX 1

EXAMPLE CONTROLS AND AUDIT PROCEDURES RELATING TO VOLUNTARY REVENUE FUNDRAISING REVENUE

While this Appendix contains certain example internal controls and indicative audit procedures, it does not describe all of the internal controls or procedures necessary to establish control over voluntary revenue fundraising revenue or perform an audit of a not for profit charitable entity's voluntary revenue fundraising revenue in accordance with Australian Auditing Standards. The guidance in this Appendix is neither intended to be comprehensive, nor is it intended to limit or supplant individual professional judgement. Audit programs and audit procedures for each audit need to be designed to meet the requirements of the particular engagement, which is a matter that can be determined only by the exercise of professional judgement in the light of the circumstances present in a particular case.

The example controls listed below for voluntary revenue fundraising revenue assist in improving control over the collection of these sources of voluntary revenue fundraising revenue. However, overall control of voluntary revenue fundraising revenue is enhanced if the governing body implements policies governing the undertaking of fundraising activities, establishes operational and financial internal controls for fundraising and has in place procedures to ensure compliance therewith.

<u>Voluntary Revenue Fundraising Revenue & Risks</u>	<u>Methods of Collection</u>	<u>Example Controls</u>	<u>Indicative Audit Procedures</u>
Cash donations	<ul style="list-style-type: none">• Direct cash	<ul style="list-style-type: none">• Establish numerical control over	<ul style="list-style-type: none">• Review and test procedures

Guidance Statement GS XXX Auditing Fundraising Revenue of Not for Profit Entities

Voluntary Fundraising Revenue & Risks	Methods of Collection	Example Controls	Indicative Audit Procedures
<ul style="list-style-type: none"> Inherent risk high, as cash donations are highly susceptible to inadvertent misplacement, or loss through fraud or theft Control risk associated with the completeness of cash donations cannot usually be assessed as lowhigh 	donations (e.g. door-to-door or street collection, or small special events)	collection boxes <ul style="list-style-type: none"> Ensure appropriate sealing of collection boxes so that any opening prior to recording cash is apparent Maintain regular collection and recording of proceeds from collection boxes Establish dual control over counting and recording of proceeds 	implemented to collect cash donations and their systems of control <ul style="list-style-type: none"> Review and test policies and procedures followed by staff or volunteers when collecting cash donations
		<ul style="list-style-type: none"> Issue receipts, where appropriate Require collectors to operate in pairs so that one collector is able to observe the actions of the other Where collections are solicited from a designated geographical area, require a report on the response of each collection unit (e.g. each household) 	<ul style="list-style-type: none"> Design analytical procedures for each different source or geographical area from which cash donations are obtained, e.g. compare cash donations from a particular activity or geographical area with previous years or budgeted cash donations
	<ul style="list-style-type: none"> Postal cash donations e.g. received from a fundraising appeal 	<ul style="list-style-type: none"> Segregate mailing opening and bank deposit functions Ensure immediate recording of donations on opening of mail or receipt 	<ul style="list-style-type: none"> Observe control procedures Analyse donations received to donations requested, and

Guidance Statement GS XXX Auditing Fundraising Revenue of Not for Profit Entities

Voluntary Revenue Fundraising Revenue & Risks	Methods of Collection	Example Controls	Indicative Audit Procedures
		<ul style="list-style-type: none"> • Agree bank paying-in slips with a record of receipts by an independent person 	<ul style="list-style-type: none"> • compare with previous years or industry statistics (if available)
<p>Monthly Subscriptions / Mailing List Donations</p> <ul style="list-style-type: none"> • Inherent risk medium/low, as monthly credit card payments and standing orders are less susceptible to misplacement or theft • Control risk associated with the completeness of credit card or online subscriptions usually assessed as med/low 	<ul style="list-style-type: none"> • Standing Order, Credit card, Direct debit and online EFT 	<ul style="list-style-type: none"> • Monthly bank reconciliations that are reviewed and signed off • Issue receipts, where appropriate • Enquire about procedures over establishing new subscription accounts and reviewing controls on an ongoing basis 	<ul style="list-style-type: none"> • Review of monthly bank reconciliations with specific consideration for any unusual reconciling items • Estimate revenue based on # of subscribers x average donation to determine reasonableness of revenue recorded
<p>Fundraising campaigns and other special events</p> <ul style="list-style-type: none"> • Given the range and size of specific fundraising events that charitable entities 	<ul style="list-style-type: none"> • Telemarketing campaigns • Bingos, raffles and lotteries • Social events 	<ul style="list-style-type: none"> • Establish procedures to ensure compliance with any regulatory requirements that pertain specifically to the fundraising event • Ensure persons responsible for 	<ul style="list-style-type: none"> • Review compliance with any regulations that are applicable to the fundraising event • To determine completeness

Guidance Statement GS XXX Auditing Fundraising Revenue of Not for Profit Entities

Voluntary Fundraising Revenue & Risks	Methods of Collection	Example Controls	Indicative Audit Procedures
<p><u>for Profit Entity</u> may undertake, each event will have its own inherent and control risk, though like cash donations, <u>assurance engagement</u> risk in respect of the completeness of <u>voluntary fundraising revenue</u> from these sources is usually high</p>	<ul style="list-style-type: none"> • Large appeals 	<p>handling collections from ticket sales account for each prenumbered ticket sold, and provides a reconciliation to tickets issued for sale</p> <ul style="list-style-type: none"> • Independent person to reconcile tickets issued against tickets sold or returned unsold, with the person being segregated from the person responsible for counting and depositing monies received 	<p>of revenue recorded from social events, assess the reasonableness of related expenditure, compare amounts recorded with past revenue and expenditure for the event</p> <ul style="list-style-type: none"> • For each material <u>fundraising event, review procedures adopted by the charitable entity for capturing and recording fundraising revenue which it controls</u> • For each material fundraising event, review procedures adopted by the charitable entity for capturing and recording voluntary revenue to which it controls

Guidance Statement GS XXX Auditing Fundraising Revenue of Not for Profit Entities

Voluntary Fundraising Revenue & Risks	Methods of Collection	Example Controls	Indicative Audit Procedures
<p>Donated materials</p> <ul style="list-style-type: none"> • Inherent risk in estimating the fair value of donated materials • Lack of evidence as to existence due to possible prior use 		<ul style="list-style-type: none"> • Develop policies to ensure immediate recording of donated materials, with periodic review of policies by the appropriate level of management • Segregate incompatible tasks, such as for example, between responsibility for receipt of donated materials and recording of donated materials • Supervise collections to prevent collusion or theft 	<ul style="list-style-type: none"> • Enquire about the accounting policies adopted for recording donated materials, test the extent and effectiveness of the accounting procedures and internal controls • Compare data collected on current year donated materials with budgeted material contributions or previous years • Consider confirming contributions from significant donors
<p>Bequests and Legacies</p> <ul style="list-style-type: none"> • Potential for breach of restrictions (if any) regarding the use of a bequest or legacy through inadequate implementation of accounting controls 		<ul style="list-style-type: none"> • Maintain comprehensive correspondence files for each bequest or legacy received or receivable • Implement systematic procedures to detect if any restrictions are imposed on the expenditure of funds, and ensure details about restrictions are 	<ul style="list-style-type: none"> • Review correspondence relating to bequests and legacies, noting the imposition of any restrictions and the consequences of non-compliance therewith

Guidance Statement GS XXX Auditing Fundraising Revenue of Not for Profit Entities

Voluntary Revenue Fundraising Revenue & Risks	Methods of Collection	Example Controls	Indicative Audit Procedures
		<p>communicated to those responsible for expenditure of funds</p> <ul style="list-style-type: none"> Separately record legacies with restrictions imposed and deposit in trust or separate bank account 	<ul style="list-style-type: none"> Test controls over expenditure and approval Review procedures for recording bequests and legacies
<p>Pledges</p> <ul style="list-style-type: none"> Inherent risk associated with estimation of the realisable value of pledges receivable is particularly significant 	<ul style="list-style-type: none"> Solicited from regular or special fundraising campaigns and can be made by telephone, other electronic devices methods or in writing 	<ul style="list-style-type: none"> Establish a method of recording and maintaining control over pledges when obtained, including procedures to ensure detection of, and compliance with, restrictions or conditions (if any) Establish a collections policy for pledges, for the purposes of providing for uncollectible pledges 	<ul style="list-style-type: none"> Review and test the process used by management to estimate pledges receivable Review the ageing of pledges Consider obtaining confirmation of unusual or significant pledges Compare pledges receivable with subsequent receipt of donations Determine whether the materialisation ratios used to estimate pledges receivable is reasonable
<p>Contributions from grants or restricted income</p> <ul style="list-style-type: none"> Potential for breach of the 	<ul style="list-style-type: none"> Contributions from government possibly following from 	<ul style="list-style-type: none"> Maintain comprehensive records of applications made and implement follow-up procedures for grant 	<ul style="list-style-type: none"> For evidence on the completeness assertion, examine grant applications

Guidance Statement GS XXX Auditing Fundraising Revenue of Not for Profit Entities

Voluntary Revenue Fundraising Revenue & Risks	Methods of Collection	Example Controls	Indicative Audit Procedures
conditions or restrictions on the use of the grant	tendering process • Receipt from major donors or supporters	applications not discharged	and correspondence • Confirm grants receivable

Draft

Appendix 2

(Ref: Para.)

APPENDIX 2

EXAMPLE OF A QUALIFIED AUDIT REPORT (SCOPE (LIMITATION OF SCOPE) FOR A NOT FOR PROFIT ENTITY~~CHARITABLE ENTITY~~)

~~For charitable entities~~ Not for Profit Entities that derive a material proportion of their fundraising revenue from sources for which either there does not exist, or it is impracticable to maintain, controls over the collection of such fundraising revenue, prior to its initial entry into the financial records, the audit evidence available in respect of the completeness assertion will be limited. Accordingly, where such circumstances exist, a qualified audit report may be issued. The following audit report is provided as an example of the form which it may take.

INDEPENDENT AUDITOR'S REPORT

To ~~[Appropriate Addressee]~~ addressee

Report on the Financial Report~~Scope~~

We have audited the accompanying financial report of [name of not for profit~~charitable~~ entity] [which comprises.....]², for the year ended [insert date] ~~30 June [year]~~ as set out on pages X to Y³.

Governing Body's Responsibility for the Financial Report

The [members of the governing body] are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and [relevant reporting framework]. - This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstance.

² or identify the individual components when appropriate.

³ or identify the individual components when appropriate.

Guidance Statement GS XXX Auditing Fundraising Revenue of Not for Profit Entities

Auditor's Responsibility

We have conducted an independent audit of the financial report in order to express an opinion on it to [addressee].

~~Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements [and relevant statutory and other requirements] so as to present a view which is consistent with our understanding of the [charitable entity's name] financial position, the results of its operations and its cash flows.~~

~~The audit opinion expressed in this report has been formed on the above basis.~~

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by [governing body], as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Guidance Statement GS XXX Auditing Fundraising Revenue of Not for Profit Entities

Basis for Qualified Opinion

[Identify source(s) of ~~voluntary revenue~~ fundraising revenue] are a significant source of fundraising revenue for the [name of not for profit charitable entity]. The [name of not for profit charitable entity] has determined that it is impracticable to establish control over the collection of [identify source(s) of ~~voluntary revenue~~ fundraising revenue] prior to entry into its financial records. Accordingly, as the evidence available to us regarding fundraising revenue from this source was limited, our audit procedures with respect to [identify source(s) of ~~voluntary revenue~~ fundraising revenue] had to be restricted to the amounts recorded in the financial records. We therefore are unable to express an opinion whether [identify source(s) of ~~voluntary revenue~~ fundraising revenue] the [name of not for profit charitable entity] obtained are complete.

Example Qualification Paragraph for Cash Donations

Cash donations are a significant source of fundraising revenue for the XYZ Society. The XYZ Society has determined that it is impracticable to establish control over the collection of cash donations prior to entry into its financial records. Accordingly, as the evidence available to us regarding fundraising revenue from this source was limited, our audit procedures with respect to cash donations had to be restricted to the amounts recorded in the financial records. We therefore are unable to express an opinion whether cash donations the XYZ Society obtained are complete.

Qualified ~~Audit~~ Opinion

In our opinion, except for the possible effects on the financial report of such adjustments, if any, as might have been required had the limitation on our audit procedures referred to in the qualification paragraph not existed, the financial report presents fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements (and...⁴) the financial position of the matter described in the Basis for Qualified Opinion paragraph, the financial report of [name of not for profit entity], presents fairly, in all material respects (or gives a true and fair view of) the financial position [name of charitable entity] as at 30 June [year end], and (of) its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards and [relevant reporting framework] the results of its operations and its cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

⁴ cite relevant statutory and other requirements when appropriate.

Guidance Statement GS XXX Auditing Fundraising Revenue of Not for Profit Entities

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

Draft

Appendix 3

EXAMPLE OF A QUALIFIED REVIEW REPORT (LIMITATION OF SCOPE) FOR A NOT FOR PROFIT ENTITY

Appendix 3

(Ref: Para.)

The following example auditor's review report is to be used only for those entities that meet the revenue and status requirements as outlined in ASRE 2415 Review of a Financial Report - Company Limited by Guarantee.

Financial report of a company limited by guarantee prepared under the Corporations Act 2001. The financial reporting framework is designed to achieve fair presentation.

INDEPENDENT AUDITOR'S REVIEW REPORT

[Appropriate Addressee]

Report on the Financial Report

We [I]² have reviewed the accompanying financial report of [name of not for profit entity], which comprises the statement of financial position as at [insert date], the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.³

Governing Body's Responsibility for the Financial Report

The [members of the governing body] are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

² When an individual is taken to be a registered company auditor under section 324BE of the *Corporations Act 2001*, the auditor's report is to be written in singular form.

³ When the auditor is aware that the financial report will be included in a document that contains other information, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the reviewed financial report is presented.

Guidance Statement GS XXX Auditing Fundraising Revenue of Not for Profit Entities

Auditor's Responsibility

Our [My] responsibility is to express a conclusion on the financial report based on our [my] review. We [I] conducted our [my] review in accordance with Auditing Standard on Review Engagements ASRE 2415 *Review of a Financial Report - Company Limited by Guarantee*, in order to state whether, on the basis of the procedures described, we [I] have become aware of any matter that makes us [me] believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the not for profit entity's financial position as at [insert date] and its performance for the year ended on that date; and complying with the Australian Accounting Standards and *Corporations Regulations 2001*. ASRE 2415 requires that we [I] comply with the ethical requirements relevant to the review of the financial report.

A review of a financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us [me] to obtain assurance that we [I] would become aware of all significant matters that might be identified in an audit. Accordingly, we [I] do not express an audit opinion.

Independence

In conducting our [my] review, we [I] have complied with the independence requirements of the *Corporations Act 2001*. We [I] confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the governing body of [name of not for profit entity], would be in the same terms if given to the governing body as at the time of this auditor's report.*

Basis for Qualified Conclusion

[Identify source(s) of fundraising revenue] are a significant source of revenue for the [name of not for profit entity]. The [name of not for profit entity] has determined that it is impracticable to establish control over the collection of [identify source(s) of fundraising revenue] prior to entry into its financial records. Accordingly, as the evidence available to us regarding fundraising revenue from this source was limited, our audit procedures with respect to [identify source(s) of fundraising revenue] had to be restricted to the amounts

* Or, alternatively, include statements (a) to the effect that circumstances have changed since the declaration was given to the relevant directors; and (b) setting out how the declaration would differ if it had been given to the relevant directors at the time the auditor's report was made.

Guidance Statement GS XXX Auditing Fundraising Revenue of Not for Profit Entities

recorded in the financial records. We therefore are unable to express an opinion whether [identify source(s) of fundraising revenue] the [name of not for profit entity] obtained are complete.

Draft

Guidance Statement GS XXX Auditing Fundraising Revenue of Not for Profit Entities

Example Qualification Paragraph for Cash Donations

Cash donations are a significant source of fundraising revenue for the XYZ Society. The XYZ Society has determined that it is impracticable to establish control over the collection of cash donations prior to entry into its financial records. Accordingly, as the evidence available to us regarding fundraising revenue from this source was limited, our audit procedures with respect to cash donations had to be restricted to the amounts recorded in the financial records. We therefore are unable to express an opinion whether cash donations the XYZ Society obtained are complete.

Qualified Conclusion

Except for the possible effects of the matter described in the Basis for Qualified Conclusion paragraph, based on our [my] review, which is not an audit, we [I] have not become aware of any matter that makes us [me] believe that the financial report of [name of not for profit entity] is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the not for profit entity's financial position as at [insert date] and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards and *Corporations Regulations 2001*.

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the review report will vary depending on the nature of the auditor's other reporting responsibilities].

[Auditor's signature]⁵

[Date of the auditor's review report]⁶

[Auditor's address]

⁵ The auditor's review report is required to be signed in one or more of the following ways: the name of the audit firm, the name of the audit company or the personal name of the individual auditor as appropriate.

⁶ The date of the auditor's report is the date the auditor signs the report.