Agenda Item 5.3 AUASB Meeting 18-19 April 2011 Marked Up Version



# Guidance Statement GS <u>019</u> Auditing Fundraising Revenue of Not-for-Profit Entities

Issued by the Auditing and Assurance Standards Board

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GS <u>019</u>

#### - 2 - GUIDANCE STATEMENT

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# CONTENTS

# AUTHORITY STATEMENT

AUTHORITY STATEMENT	Paragraphs
Application	1
Issuance Date	2
Introduction	3-5
Characteristics of a Not-for-profit Entity	6
Regulatory Framework Affecting a Not-for-profit Entity	7-9
Entity	10-12
Internal Control	13-14
Audit of Fundraising Revenue	
Audit Planning	15
Completeness of Fundraising Revenue	16-19
Forming an Opinion and Reporting on a Financial Report	
Forming an Opinion	20
Reporting	21-24
<b>Conformity with International Pronouncements</b>	
Appendix 1: Example Controls and Audit Procedures Relating to Fundraising Revenue	
Appendix 2: Example Auditor's Report General Purpose Financial Report – Qualified Opinion (Limitation on Scope)	
Appendix 3: Example Auditor's Report General Purpose Financial Report – Unmodified Opinion, Emphasis of Matter	
Appendix 3: Example Auditor's Review Report with a Qualified Conclusion for a Limitation of Scope	

GS <u>019</u>

- 3 - GUIDANCE STATEMENT

# **AUTHORITY STATEMENT**

The Auditing and Assurance Standards Board (AUASB) formulates Guidance Statement GS <u>019</u> *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 requirements.

Dated: <u>18 April 2011</u> - TypeHere>

M H Kelsall Chairman - AUASB

GS <u>019</u>

- 4 - GUIDANCE STATEMENT

# GUIDANCE STATEMENT GS <u>019</u>

# 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 <u>planning</u>, <u>performing and</u> <u>reporting determining whether sufficient appropriate audit evidence</u> has been obtained to form an opinion on the completeness of fundraising revenue for Not-for-profit entities.

#### **Issuance Date**

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3.

This Guidance statement is issued on <u>18 April 2011</u> March 2011 by the AUASB and replaces 1054 *Auditing Revenue of Charitable Entities*, issued in July 2002.

#### Introduction

Australian Auditing Standards (ASAs) contain requirements, application and other explanatory material the basic principles together with related guidance that apply to the audit of the financial report of any entity, including Not-for-profit entities, irrespective of their size, legal form, or the nature of their activities. However, the AUASB recognises that the audit of Not-for-profit entities gives rise to a number of specific audit issues, a significant one of which is forming a conclusion and reporting on about the completeness assertion in relation to fundraising revenue from sources such as cash donations, appeals, raffles and other fundraising activities.

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.

GS <u>019</u>

#### - 5 - GUIDANCE STATEMENT

From an audit perspective, there can often be uncertainty as to about 5.4. whether a Not-for-profit entity has received all fundraising revenue cash donations to which it has a right from its respective fundraising or other revenue generating activities as adequate controls may not be in place over all sources of revenue. Consequently, an auditor may find it difficult to perform tests of controls and substantive procedures that are necessary to reduce assurance engagement risk, particularly in respect of the completeness of 4 enuecash donations, to an acceptable level. When such a scope limitation exists, the auditor considers expressing a qualified opinion. However, the expression of a qualified opinion in respect of the completeness of cash donations as a portion of fundraising revenue ought not to occur as a matter of course for all Not-forprofit entities that receive <u>cash donations</u>. <u>Fundraising revenue</u>, as <u>Ceonsideration\_needs to be must also be given to materiality and</u> mitigation of risks through internal control structures <u>or other factors</u> affecting the environment in which the Not-for-profit entity operates. <u>6.5</u> The guidance provided is applicable to all audits of Not-for-profit entities as typically these entities are more reliant on cash donations from fundraising activities as a significant source of their revenue base as compared to a for profit entity. and The guidance is designed to assist the auditor in exercising professional judgement in the application of the Auditing Standards SAs. 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. **Characteristics of a Not-for-profit Entity** <u>7.6</u> For not for profit entities, Significant diversity can exist in their activities, s and operations, size, and legal structures of Nnot-forprofit entities. There is also significant public interest in the accountability of Not-for-profit entities, because they are generally supported by 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 <u>N</u><del>n</del>ot-for-profit entities, including the audit of fundraising revenue.

### **Regulatory Framework Affecting a Not-for-profit Entity**

8.7. The regulatory framework for <u>N</u><del>n</del>ot-for-profit entities can be complex. Not-for-profit entities may operate under a variety of legal

GS <u>019</u> - 6 - GUIDANCE STATEMENT

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 entity (e.g. *Charitable Fundraising Act 1991*). Each of these legal structures may impose specific financial reporting and auditing requirements. A Not-for-profit 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.
9-8. For a Nnot-for-profit entity that is a company limited by guarantee

further consideration <u>needs tomust</u> be given to the recent changes to the <u>Corporations Act 2000</u>. 4 Refer to <u>Corporations Amendment</u> (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 <u>the auditor isis</u> 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 <u>43</u>. For further information, refer to ASRE 2415 <u>Review of a Financial Report - Company Limited by</u> Guarantee.

The conduct of some activities undertaken by <u>Nnot-for-profit</u> entities, for example, major fundraising events or other activities associated 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 <u>Nnot-for-profit</u> entity undertaking similar activities in the future.

# **Nature of Fundraising Revenue**

11. The revenue of <u>N</u>not-for-profit entities may be derived from a variety of sources <u>including</u>: cash donations from members of the public, donated materials, restricted and unrestricted grants from government. Fundraising revenue may be obtained from street, door-to-door or postal collections, special events or other methods of fundraising. Revenue from fundraising activities can be geographically dispersed, and may be directed to a <u>N</u>not-for-profit

GS <u>019</u>

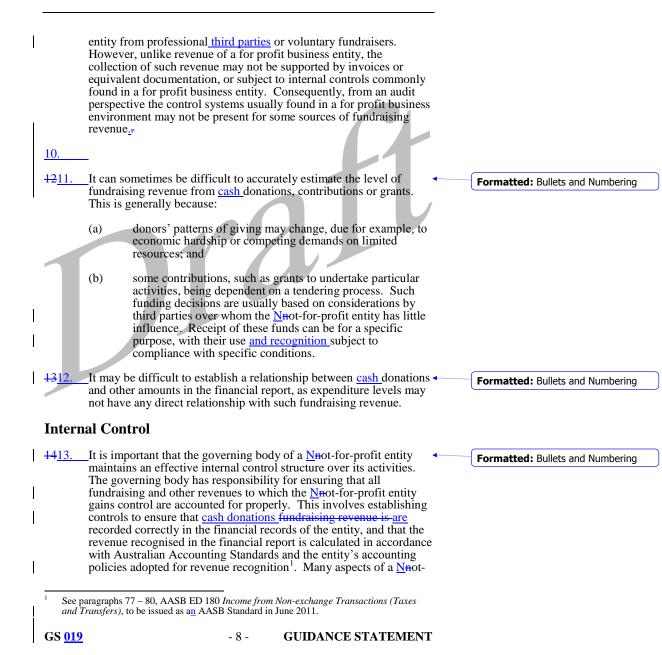
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- 7 - GUIDANCE STATEMENT

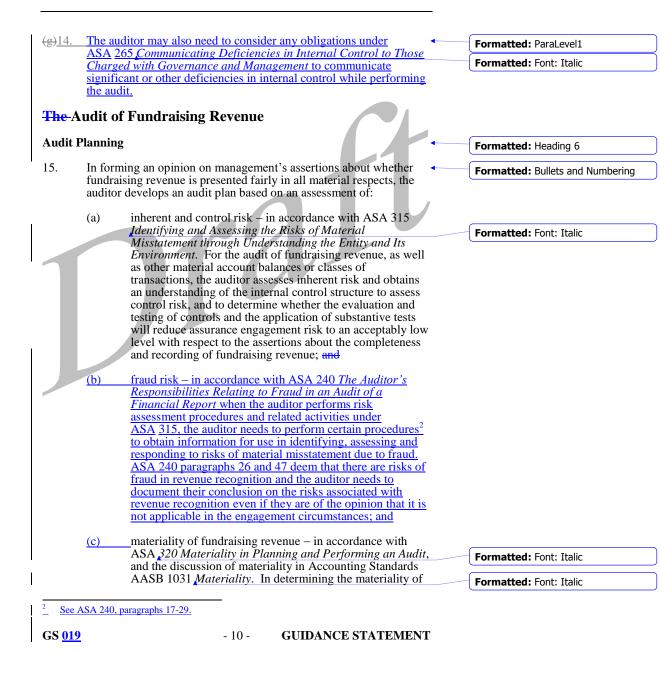
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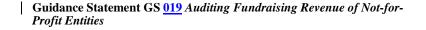
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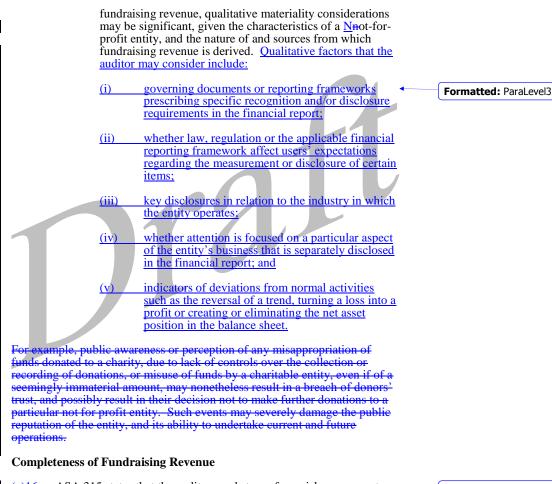
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for-profit's control environment and individual control procedures will be the same as those of a for profit business entity. However, the internal control structures for a Nnot-for-profit entity isare likely to be affected, to varying degrees, by the following factors: (a) limited resources being available to achieve internal control objectives, as generally a Nnot-for-profit entity keeps administrative staff and management tools to a minimum so that resources are allocated to activities that will help them achieve itstheir mission; (b) the likelihood that volunteers will be involved in the Notfor-profit entity. The involvement of volunteers can range from serving in a voluntary capacity on the Nnot-for-profit entity's governing board to daily involvement in the entity's operations or management, including performing accounting and fundraising functions; the culture that underlies various facets of the control (c) 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 governments, contributors, or national or international bodies affiliated with the Nnot-for-profit entity that who may require certain control procedures be implemented, such as ensuring that government grants are only expended / recognised in accordance with a grant agreement or certain expenses are approved by the governing body; the regulatory requirements relating to its fundraising (e) activities; (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 <u>(g</u>) where third party specialist fundraisers or other noncontrolled entities e.g. branches or associates, undertake fundraising on behalf of a Nnot-for-profit entity (under a documented agreement)., there may be difficulties in establishing whether the entity receives all the revenue over which it is perceived to have gained control. GS 019 -9-**GUIDANCE STATEMENT** 







(a)16. ASA 315 states that the auditor needs to 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 <u>cash donations</u> <u>portion of</u> fundraising revenue included in a <u>Nnot-for-profit entity's</u> financial report is, in all material respects, complete. In some cases there may be-a significant assurance engagement risk that <u>cash</u>

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- 11 - GUIDANCE STATEMENT

		ionsfundraising revenue may not be recorded from all sources,	
17.		onsequently, materially understated and incomplete.	
17.	assura	ance about whether fundraising revenue from all sources to	
		a not for profit entity is entitled is received and recorded by	
	<del>the en</del>	tity. However, In accordance with ASA 330 The Auditor's	
		nses to Assessed Risks, "the auditor shall design and perform	
		r audit procedures whose nature, timing and extent are based	
	on and	<u>d are responsive to the assessed risks of material misstatement</u> assertion level". ASA 330 states that in designing these	
		r audit procedures consideration should be given to the	
	likelih	nood of material misstatement due to the particular	
	charac	cteristics of the relevant class of transactions and whether the	
		ssessment takes account of relevant controls, their operating	
		iveness and the overall responsibility by	
		gement/governing body for effectively monitoring these ties/controls, in determining the extent of substantive	
		dures to be undertaken <sup>3</sup> .	
	-		
1 <u>6.</u> 18.	ASA (	330 also requires the auditor to evaluate before the conclusion	
		audit whether the assessments of the risks of material	
		atement at the assertion level remain appropriate and whether ient appropriate audit evidence has been obtained <sup>4</sup> .	
	surre	ient appropriate audit evidence has been obtained.	
<del>17.</del> 19.	<mark>Aa</mark> s th	ne revenue of each <u>Nnot-for-profit<del>charitable</del> entity may be</u>	
	derive	ed from, and obtained by, different sources and methods, each	
		e has its own distinct inherent and control risk. In assessing	
		er <u>cash donations as a portion of</u> fundraising revenue <u>areis</u>	
		rly stated the auditor's considerations may include an ment of the following:	
	assess	ment of the following:	
	(a)	nature of the various sources of fundraising revenue	
		received by the <u>N</u> +ot-for-profit entity, the risks associated	
		with their method of receipt, including any specific risks in	
		the context of the entity's activities;	Forma
	(b)	loss of incoming resources through fraud: the possibility	Forma
		that the Not-for-profit's records of incoming resources to	/ Forma
		which it is legally entitled may be incomplete as a result of	Forma
		fraud. A common type of fraud against Nnot-for-profit	/ / 돈
		entities is the diversion of donations to bank or building	Forma
		society accounts which the Nnot-for-profit governing body does not control;	Forma
			- (
$\frac{3}{4}$ See	ASA 330	The Auditor's Responses to Assessed Risks, paragraphs 8-23.	Forma

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effectiveness of the controls that are applied, given that (c) some controls can usually be established for each source of fundraising revenue. The controls in turn may assist in evaluating when an entity gains control of its fundraising revenue for the purposes of recognising revenue in its financial report; and (d) materiality of each source of fundraising revenue in relation to all of the Nnot-for-profit entity's revenue. Appendix 1 to this guidance statement sets out, for illustrative purposes only, the risks associated with various sources of fundraising revenue, the controls which a Nnot-for-profit entity may implement in respect of those fundraising revenues, and some indicative substantive audit procedures which the auditor may consider in relation to the audit of each source of fundraising revenue. 330 1<u>8</u>I Response <del>d Risks,</del> Formatted: Font: Italic "the auditor shall design and perform further audit procedures whose nature, timing and extent are based on and are responsive to the Formatted: Bullets and Numbering of material misstatement at the as and riak sortion lovel" "Based on the audit procedures performed and the audit evidence 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". Forming an Opinion and Reporting on a Financial Report Forming an Opinion In order to form an opinion under ASA 700<sup>5</sup> Forming an Opinion 20.

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See ASA 700 Forming an Opinion and Reporting on a Financial Report, paragraphs 10-15. See paragraphs 13 and 17 of this guidance statement.

above the auditor needs to consider:

and Reporting on a Financial Report "the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error". In relation to the

whether sufficient appropriate evidence has been obtained

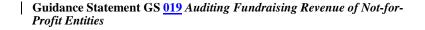
and under ASA 330<sup>6</sup> in particular, the auditor needs to

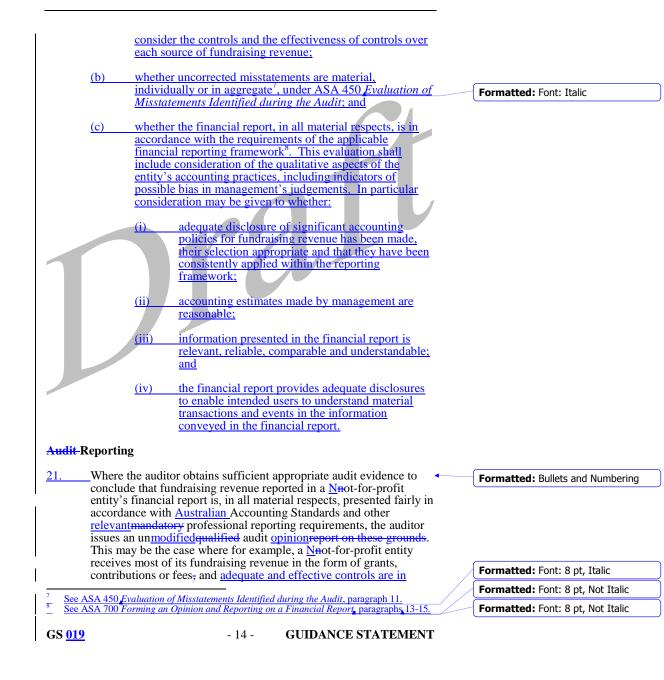
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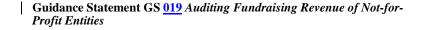
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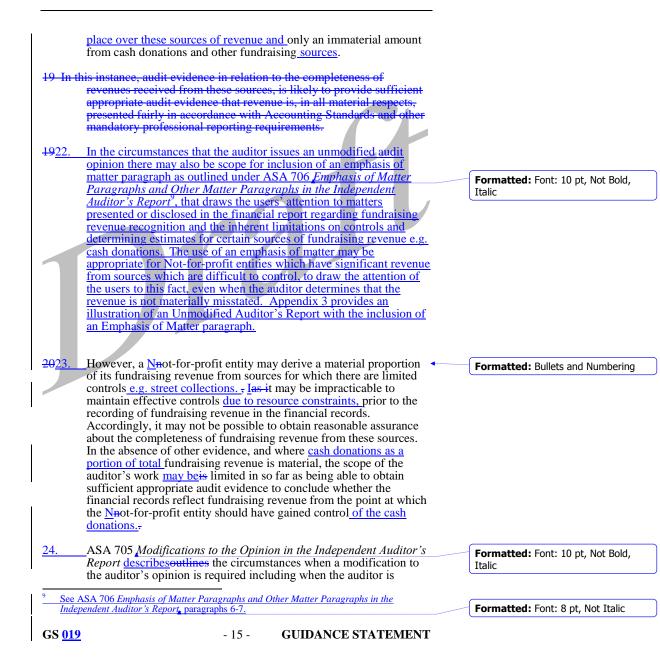
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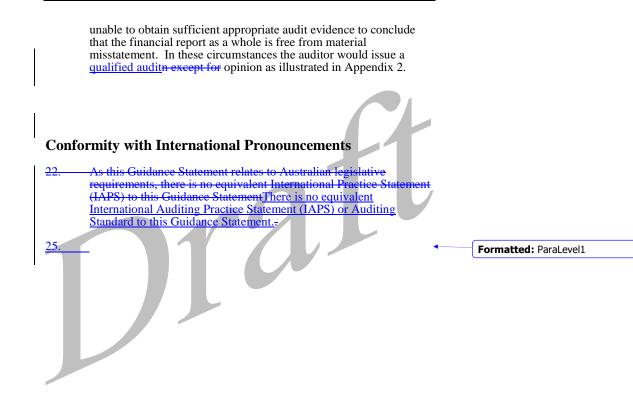
**GUIDANCE STATEMENT** - 13 -











GS <u>019</u>

- 16 - GUIDANCE STATEMENT

# Appendix 1

(Ref: Para. 5)

#### EXAMPLE CONTROLS AND AUDIT PROCEDURES RELATING TO 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 fundraising revenue or to perform an audit of a <u>Nnot</u>-for-profit entity's 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 fundraising revenue assist in improving control over the collection of these sources of fundraising revenue. However, overall control of 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.

GS <u>019</u>

- 17 -

Fundraising Revenue &	Methods of	Example Controls	Indicative Audit	Formatted: Font: 10 pt
Risks Cash donations	<ul><li>Collection</li><li>Direct cash</li></ul>	Establish numerical control over	Procedures     Review and test	Formatted: Font: 10 pt
<ul> <li>Inherent risk high, as</li> </ul>	donations (e.g.	collection boxes	procedures 🔺	Formatted: Font: 10 pt
cash donations are highly susceptible to	door-to-door or street collection,	• Ensure appropriate sealing of collection boxes so that any	implemented to collect cash donations and their	Formatted Table
inadvertent	or small special	opening prior to recording cash is	systems of control	Formatted: Font: 10 pt
misplacement, or loss through fraud or theft	events <u>e.g. raffle</u> )	<ul><li>apparent</li><li>Maintain regular collection and</li></ul>	<ul> <li>Review and test policies and procedures</li> </ul>	Formatted: Font: Bold
<ul> <li>Control risk associated</li> </ul>		recording of proceeds from collection boxes	followed by staff or volunteers when	Formatted: Font: Bold
with the completeness of cash donations		<ul> <li>Establish dual control over</li> </ul>	collecting cash	Formatted: Font: Bold
usually assessed as high		counting and recording of proceeds independent of collectors	<ul><li>donations</li><li>Reconcile total of tax</li></ul>	Formatted: Font: Bold
		Reconcile receipts issued with	receipts issued with	Formatted: Font: 10 pt
		<u>cash received</u>	cash recorded and banked	Formatted: Font: Bold
	2	<ul> <li>Issue receipts, where appropriate</li> <li>Require collectors to operate in pairs so that one collector is able to observe the actions of the other</li> </ul>	<ul> <li>Design analytical          procedures for each different source or geographical area from     </li> </ul>	<b>Formatted:</b> List Paragraph, Indent: Left: 0.12 cm, Hanging: 0.38 cm, Bulleted + Level: 1 + Aligned at: 0.63 cm + Indent at: 1.27 cm
		• Where collections are solicited from a designated geographical	which cash donations are obtained, e.g.	Formatted
GS <u>019</u>	- 18 -		ANCE STATEMENT	

Fundraising Revenue &	Methods of	Example Controls	Indicative Audit	Formatted: Font: 10 pt
Risks	Collection		Procedures	Formatted: Font: 10 pt
		area, require a report on the response of each collection unit	compare cash donations from a particular	Formatted: Font: 10 pt
		(e.g. each household)	activity or geographical area with previous years	Formatted Table
			or budgeted cash donations	Formatted: Font: 10 pt
	Postal cash	• Segregate mail opening and bank	Observe control	Formatted: Font: Bold
	donations e.g.	deposit functions	procedures	Formatted: Font: Bold
	received from a fundraising appeal	•Ensure immediate recording of donations on opening of mail or	•_Analyse donations received to donations	Formatted: Font: Bold
		receipt	requested, and compare	Formatted: Font: Bold
Monthly Subscriptions /	• Standing Order,	<ul> <li>Agree bank paying-in slips with a record of receipts by an independent person</li> <li>Monthly bank reconciliations that</li> </ul>	<ul> <li>with previous years or industry statistics (if available)</li> <li>Review of monthly</li> </ul>	<b>Formatted:</b> List Paragraph, Indent: Left: 0 cm, Hanging: 0.43 cm, Bulleted + Level: 1 + Aligned at: 0.63
Mailing List Donations	Credit card, Direct	are reviewed and signed off	bank reconciliations	cm + Indent at: 1.27 cm
<ul> <li>Inherent risk medium/low, as</li> </ul>	debit and online EFT	<ul> <li>Issue receipts, where appropriate</li> <li>Enquire about procedures over</li> </ul>	with specific • consideration for any	Formatted
monthly credit card		establishing new subscription	unusual reconciling	Formatted: Font: Bold
payments and standing		accounts and reviewing controls	items	Formatted
orders are less		on an ongoing basis	• Estimate revenue based	Formatted
GS <u>019</u>	- 19 -	GUIDA	ANCE STATEMENT	(

Fundraising Revenue &	Methods of	Example Controls	Indicative Audit	Formatted: Font: 10 pt
Risks susceptible to	Collection		Procedures       on # of subscribers x	Formatted: Font: 10 pt
misplacement or theft			average donation to	Formatted: Font: 10 pt
• Control risk associated with the completeness			determine reasonableness of	Formatted Table
of credit card or online			revenue recorded	Formatted: Font: 10 pt
subscriptions usually assessed as med/low				Formatted: Font: Bold
Fundraising campaigns	•Telemarketing	•Establish procedures to ensure	Review compliance	Formatted: Font: Bold
<ul><li>and other special events</li><li>Given the range and</li></ul>	<ul><li>campaigns</li><li>Bingos, raffles</li></ul>	compliance with any regulatory requirements that pertain	with any regulations that are applicable to	Formatted: Font: Bold
size of specific	and lotteries	specifically to the fundraising	the fundraising event	Formatted: Font: Bold
fundraising events that <u>a NN</u> otfor <del>pP</del> rofit	<ul> <li>Social events</li> <li>Large appeals</li> </ul>	event Ensure persons responsible for	<u>Comparison of cash</u> donations actually	Formatted: Font: Bold
eEntity may undertake, each event will have its own inherent and control risk, though like		handling collections from ticket sales account for each pre numbered ticket sold, and provide a reconciliation to tickets issued	received to past results for similar special events and statistics for response rates for NFPs	<b>Formatted:</b> List Paragraph, Indent: Left: -0.07 cm, Hanging: 0.5 cm, Bulleted + Level: 1 + Aligned at: 0.63 cm + Indent at: 1.27 cm
cash donations, assurance engagement risk in respect of the completeness of		for sale Independent person to reconcile tickets issued against tickets sold or returned unsold, with the	<ul> <li>in general</li> <li>To determine completeness of revenue recorded from</li> </ul>	<b>Formatted:</b> List Paragraph, Indent: Left: 0 cm, Hanging: 0.5 cm, Bulleted + Level: 1 + Aligned at: 0.63 cm + Indent at: 1.27 cm
GS <u>019</u>	- 20 -	GUIDA	ANCE STATEMENT	

Fundraising Revenue &	Methods of	Example Controls	Indicative Audit	Formatted: Font: 10 pt
Risks           fundraising revenue	Collection	person being segregated from the	Procedures social events, assess the	Formatted: Font: 10 pt
from these sources is		person responsible for counting	reasonableness of	Formatted: Font: 10 pt
usually high		and depositing monies received	related expenditure, compare amounts	Formatted Table
			recorded with past	Formatted: Font: 10 pt
			revenue and expenditure for the	Formatted: Font: Bold
			event	Formatted: Font: Bold
			—For each material fundraising event,	Formatted: Font: Bold
			review procedures	Formatted: Font: Bold
			adopted by the charitable entity for	Formatted: Font: Bold
	$\mathcal{A}$		capturing and recording fundraising revenue which it controls	<b>Formatted:</b> List Paragraph, Indent: Left: -0.02 cm, Hanging: 0.5 cm, Bulleted + Level: 1 + Aligned at: 0.63 cm + Indent at: 1.27 cm
Donated materials <ul> <li>Inherent risk in <ul> <li>estimating the fair value</li> <li>of donated materials</li> </ul> </li> </ul>		• Develop policies to ensure immediate recording of donated materials, with periodic review of policies by the appropriate level of	<ul> <li>Enquire about the accounting policies</li> <li>adopted for recording donated materials, test</li> </ul>	<b>Formatted:</b> List Paragraph, Indent: Left: 0 cm, Hanging: 0.5 cm, Bulleted + Level: 1 + Aligned at: 0.63 cm + Indent at: 1.27 cm
GS <u>019</u>	- 21 -	GUIDA	ANCE STATEMENT	

Fundraising Revenue &	Methods of	Example Controls	Indicative Audit	Formatted: Font: 10 pt
Risks Lack of evidence as to	Collection	management	Procedures the extent and	Formatted: Font: 10 pt
existence due to		•Segregate incompatible tasks, for	effectiveness of the	Formatted: Font: 10 pt
possible prior use		example, responsibility for receipt and recording of donated materials	accounting procedures and internal controls	Formatted Table
		•Supervise collections to prevent collusion or theft	•_Compare data collected on current year donated	Formatted: Font: 10 pt
		condition of men	materials with budgeted	Formatted: Font: Bold
			material contributions or previous years <sup>2</sup>	Formatted: Font: Bold
			receipts	Formatted: Font: Bold
			<ul> <li>Consider confirming contributions from</li> </ul>	Formatted: Font: Bold
Bequests and Legacies		Maintain comprehensive	significant donors	Formatted: List Paragraph, Indent: Left: 0.5 cm
•Potential for breach of		correspondence files for each	<ul> <li>Review correspondence relating to bequests and</li> </ul>	Formatted: Font: Bold
restrictions (if any) regarding the use of a bequest or legacy through inadequate implementation of		<ul> <li>bequest or legacy received or receivable</li> <li>Implement systematic procedures to detect if any restrictions are imposed on the expenditure of</li> </ul>	legacies, noting the imposition of any restrictions and the consequences of non- compliance therewith	<b>Formatted:</b> List Paragraph, Indent: Left: 0 cm, Hanging: 0.48 cm, Bulleted + Level: 1 + Aligned at: 0.63 cm + Indent at: 1.27 cm
accounting controls		funds, and ensure details about	•Test controls over	Formatted
GS <u>019</u>	- 22 -	GUIDA	ANCE STATEMENT	

Fundraising Revenue &	Methods of	Example Controls	Indicative Audit	Formatted: Font: 10 pt
Risks	Collection	restrictions are communicated to	Procedures expenditure and	Formatted: Font: 10 pt
		those responsible for expenditure of funds	approval	Formatted: Font: 10 pt
		<ul> <li>Separately record legacies with</li> </ul>	<ul> <li>Review procedures for recording bequests and</li> </ul>	Formatted Table
		restrictions imposed and deposit in trust or separate bank account	legacies	Formatted: Font: 10 pt
Pledges	<ul> <li>Solicited from</li> </ul>	• Establish a method of recording	• Review and test the	Formatted: Font: Bold
• Inherent risk associated with estimation of the	regular or special fundraising	and maintaining control over pledges when obtained, including	process used by management to estimate	Formatted: Font: Bold
realisable value of	campaigns and	procedures to ensure detection of,	pledges receivable	Formatted: Font: Bold
pledges receivable is particularly significant	can be made by telephone, other	and compliance with, restrictions or conditions (if any)	•_Review the ageing of pledges	Formatted: Font: Bold
particularly significant	electronic	• Establish a collections policy for	• Consider obtaining	Formatted: Font: Bold
	methods or in writing	pledges, for the purposes of providing for uncollectible pledges	<ul> <li>confirmation of unusual or significant pledges</li> <li>Compare pledges receivable with</li> </ul>	<b>Formatted:</b> List Paragraph, Indent: Left: 0 cm, Hanging: 0.43 cm, Bulleted + Level: 1 + Aligned at: 0.63 cm + Indent at: 1.27 cm
			subsequent receipt of donations	Formatted
			• Determine whether the materialisation ratios	Formatted
		I	materialisation fatios	Formatted
GS <u>019</u>	- 23 -	GUIDA	ANCE STATEMENT	

Fundraising Revenue &	Methods of	Example Controls	Indicative Audit	Formatted: Font: 10 pt
Risks	Collection		Procedures           used to estimate pledges	Formatted: Font: 10 pt
I			receivable <u>areis</u>	Formatted: Font: 10 pt
<b>Contributions from</b>	Contributions	Maintain comprehensive records	<ul> <li>reasonable</li> <li>For evidence on the</li> </ul>	Formatted Table
grants or restricted	from government	of applications made and	completeness assertion,	Formatted: Font: 10 pt
<ul><li>income</li><li>Potential for breach of</li></ul>	possibly following from tendering	implement follow-up procedures for grant applications not	examine grant applications and	Formatted: Font: Bold
the conditions or	process	discharged	correspondence	Formatted: Font: Bold
restrictions on the use of the grant	Receipt from major donors or		•Confirm grants received or receivable with	Formatted: Font: Bold
	supporters		grantor bodiesable	Formatted: Font: Bold
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# Appendix 2

(Ref: Para. <u>2</u>4)

EXAMPLE OF A QUALIFIED AUDITOR'S REPORT (LIMITATION of scope) GENERAL PURPOSE FINANCIAL REPORT-FOR A QUALIFIED OPINION (LIMITATION OF SCOPE) NOT-FOR-PROFIT ENTITY

Financial report is prepared for a general purpose by the governing body of the entity and is in accordance with Australian Accounting Standards. The financial report is *pot*, prepared under the *Corporations* Act 2001.

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

Independent Auditor's Report

[Appropriate Addressee]

#### **Report on the Financial Report**

We have audited the accompanying financial report of [name of  $\underline{N}_{n}$  ot-forprofit entity] [which comprises......]<sup>10</sup>, for the year ended [insert date].

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], and for such internal control as the governing body determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

GS <u>019</u>

- 25 -

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<sup>&</sup>lt;sup>10</sup> or identify the individual components when appropriate.

J. 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.

Auditor's Responsibility

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.

Basis for Qualified Opinion

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

Example Basis for Qualified Opinion cation Paragraph for Cash Donations

GS <u>019</u>

- 26 -

GUIDANCE STATEMENT

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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 recorded obtained are complete.

#### Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial report of [name of <u>Nnotfor-profit</u> entity], presents fairly, in all material respects (or gives a true and fair view of) the financial position as at [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]

#### Report on Other Legal and Regulatory Requirements

[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]

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GS <u>019</u>

- 27 -

Appendix 3
<u>(Ref: Para. 22)</u>
EXAMPLE AUDITOR'S REPORT GENERAL PURPOSE FINANCIAL REPORT- UNMODIFIED OPINION, EMPHASIS OF MATTER
Financial report is prepared for a general purpose by the governing body of the entity and is in accordance with Australian Accounting Standards. The financial report is <i>not</i> prepared under the <i>Corporations</i> Act 2001.
INDEPENDENT AUDITOR'S REPORT [Appropriate Addressee]
Report on the Financial Report
We have audited the accompanying financial report of [name of Not-for- profit entity] [which comprises] <sup>11</sup> , for the year ended [insert date].
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], and for such internal control as the governing body determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.
Auditor's Responsibility
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.
<sup>11</sup> or identify the individual components when appropriate.
GS 019 - 28 - GUIDANCE STATEMENT

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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.

**Opinion** 

In our opinion, 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 as at [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].

<u>Emphasis of Matter</u>

We draw attention to Note X to the financial report which describes the revenue recognition policy and the procedures over cash donations which are a significant source of fundraising revenue for [name of Not-for-profit entity]. Our opinion is not qualified in respect of this matter.

**Report on Other Legal and Regulatory Requirements** 

[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]

GS 019

- 29 -

**GUIDANCE STATEMENT** 

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### Appendix 43

(Ref: Para. 8)

EXAMPLE <u>AUDITOR'S OF A QUALIFIED</u> REVIEW REPORT WITH A QUALIFIED CONCLUSION FOR A (LIMITATION ONF SCOPE) FOR A NOT-FOR-PROFIT ENTITY

The following example auditor's review report is to be used only for those entities that meet the revenue and status requirements as described 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  $[I]^{122}$  have reviewed the accompanying financial report of [name of <u>Nn</u>ot-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.<sup>133</sup>

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

12 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.

13 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.
 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.
 When the auditor is aware that the financial report will be included in a document that contains other information allows.

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.

GS <u>019</u>

- 30 -

preparation of the financial report that is free from material misstatement, whether due to fraud or error.

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 <u>Nn</u>ot-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  $\underline{N}$  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 Opinion

[Identify type(s) of fundraising revenue] are a significant source of fundraising revenue for the [name of Nnot-for-profit entity]. The [name of Nnot-for-profit entity] has determined that it is impracticable to establish control over the collection of [identify type(s) of fundraising revenue] prior to entry into its financial records. Accordingly, as the evidence available to us

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.

GS <u>019</u>

- 31 -

GUIDANCE STATEMENT

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regarding fundraising revenue from this source was limited, our audit procedures with respect to [identify type(s) of fundraising revenue] had to be restricted to the amounts recorded in the financial records. We therefore are unable to express an opinion whether [identify type(s) of fundraising revenue] of [name of Nnot-for-profit entity] recorded is complete.

#### Example Basis for Qualified Opinion

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 recorded is 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 Nnot-for-profit entity] is not in accordance with the Corporations Act 2001 including:

- giving a true and fair view of the <u>Nnot-for-profit</u> entity's financial (a) position as at [insert date] and of its performance for the year ended on that date; and
- complying with Australian Accounting Standards and Corporations (b) 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]<sup>14</sup> [Date of the auditor's review report]<sup>15</sup> [Auditor's address]

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. Under ASRE 2415 the review report can be signed by a registered company auditor which includes an individual who meets the requirements of section 324BE of the *Corporations Act 2001*. The date of the auditor's report is the date the auditor signs the report.

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GS <u>019</u>

- 32 -

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