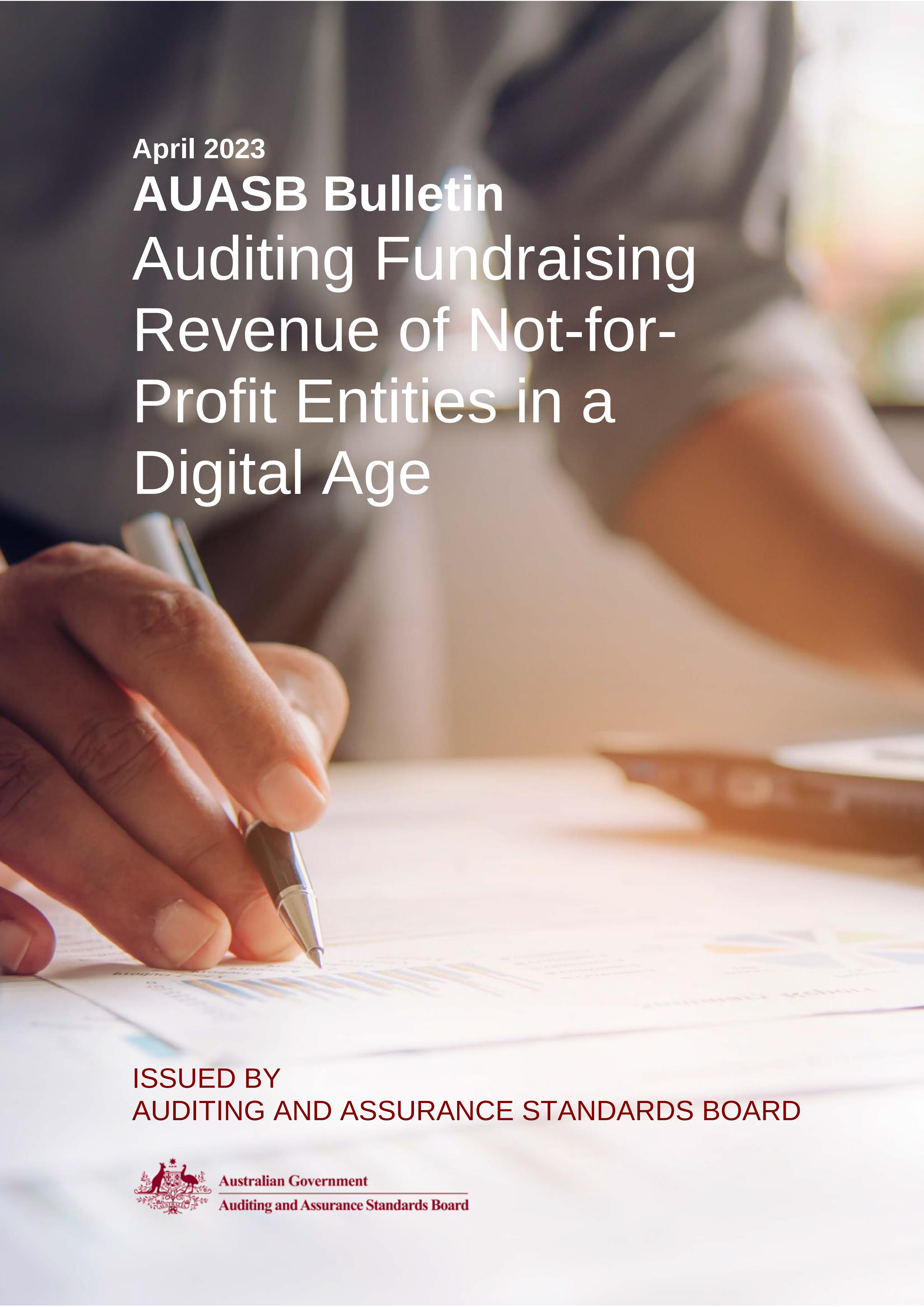

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AUASB Bulletin

Auditing Fundraising Revenue of Not-for-Profit Entities in a Digital Age

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About the AUASB

The Auditing and Assurance Standards Board (AUASB) is an independent, non-corporate Commonwealth entity of the Australian Government, responsible for developing, issuing and maintaining auditing and assurance standards.

Sound public interest-oriented auditing and assurance standards are necessary to reinforce the credibility of the auditing and assurance processes for those who use financial and other information. The AUASB standards are legally enforceable for audits or reviews of financial reports required under the *Corporations Act 2001*. For more information about the AUASB see the AUASB Website.

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The views expressed in this publication are those of the author(s) and those views do not necessarily coincide with the views of the Auditing and Assurance Standards Board. Any errors or omissions remain the responsibility of the principal authors.

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Introduction and purpose

The Auditing and Assurance Standards Board (AUASB) has prepared this AUASB Bulletin to assist auditors of Not-for-Profit Entities (NFPs) to address key audit considerations in a digital age when undertaking their planning, risk assessment, performing and reporting on fundraising revenue.

This AUASB Bulletin highlights current issues relating to fundraising revenue collection and the impacts of the collection on audit procedures and the audit report. It also draws together other reference materials from the AUASB and other sources that auditors of NFPs may find useful.

GS 019 *Auditing Fundraising Revenue of Not-for-Profit Entities*[1] was issued in 2011 to provide guidance to auditors on the factors to consider when planning, performing and reporting on the completeness of fundraising revenue for not-for-profit entities. The guidance was considered no longer fit-for-purpose for auditors based on developments in technology and types of audit techniques applied in more recent years. As a result, GS 019 was withdrawn effective from 15 March 2023 and replaced by this AUASB Bulletin, which has drawn relevant guidance from GS 019 and current practice and other resources of the AUASB applicable in a digital age. The appendices in GS 019 have also been updated and retained separately on the AUASB Not-for-Profit page.

Understanding the regulatory and legal framework of the Not-for-Profit Entity

Auditors of NFPs need to consider both the regulatory framework and the legal structure of the NFPs they are auditing or reviewing. This will assist the auditor in determining the reporting and audit or review requirements that apply at both a Commonwealth and State level. This understanding also needs to be overlayed with the legal structure of the NFP which may give rise to specific compliance obligations, including further reporting obligations.

NFPs registered with the Australian Charities and Not-for-Profit Commission (ACNC) are required to comply with financial reporting and audit/assurance obligations under the *Australian Charities and Not-for-profits Commission Act 2012* (the ACNC Act). In addition, there may be other State/Territory based legislation that NFPs may need to comply with, depending on the structure of the entity (including, for example incorporated association, indigenous corporation, company limited by guarantee).

Refer to the AUASB Not-for-Profit page for further resources to assist the auditors.

> For a NFP that is a company limited by guarantee or an entity reporting under the ACNC Act or other applicable legislation or regulation the auditor may be able to conduct a review engagement instead of an audit. Whilst this AUASB Bulletin is intended for audit engagements, the principles contained below are still relevant. For further details, refer to ASRE 2415 *Review of a Financial Report: Company Limited by Guarantee or an Entity Reporting under the ACNC Act or Other Applicable Legislation or Regulation*.

Nature of Fundraising Revenue

Fundraising revenue may be derived from a variety of sources including:

- physical cash donations

[1] Refer to the archived copy for more information.

- digital cash donations
- donated materials
- restricted and unrestricted grants from government[2]

It is likely that physical collections of cash donations have significantly reduced particularly since the COVID-19 pandemic. Fundraising activities and the collection of fundraising revenue have in the most part moved to digital platforms with the use of credit card payments, EFTPOS, Go Fund Me, PayPal and QR codes to streamline the collection processes. Recording processes have become more technology driven than in the past. Consequently, auditors may need to consider General Information Technology Controls (GITCs) and application controls around revenue collection processes and other security risks such as breaching of privacy laws when dealing with donor credit cards details. Refer to Internal Control section below for more information on the considerations on internal controls and GITCs of the NFPs.

Risk Considerations

The last few years have been challenging for the NFP and charities sectors, especially those with a significant portion of their revenue derived from fundraising activities. Technological advancement has allowed fundraising activities to continue via digital means, for example where donors have been able to donate using credit cards via online platforms instead of through more traditional fundraising methods. However, this increased use of technology has also meant that GITC and cybersecurity risks may have a greater impact on audit risks around NFP fundraising revenue.

There has been an increasing number of privacy data breaches in cyberattacks reported in Australia in recent years. If the entity retains credit card information from donors, it is important that the entity has adequate controls to protect against cyberattacks.

See AUASB Bulletin The Consideration of Cyber Security Risks in an Audit of a Financial Report for more information.

Internal Control

It is crucial for an NFP to maintain an effective internal control structure over its activities. However, this may be challenging for some NFPs due to the nature and size of their operations. Auditors may consider the impact of the following factors on internal controls of the NFP:

- limited resources being available to achieve internal control objectives;
- the likelihood that volunteers will be involved in the day-to-day operations of the NFP;
- culture and attitude of management personnel towards the importance of governance, accountability and responsibility;
- regulatory requirements or any externally imposed requirements by governments, contributors, or national or international bodies, and
- where third party specialist fundraisers or other non-controlled entities e.g. branches or associates, undertake fundraising on behalf of a not-for-profit entity (under a documented agreement).

[2] Grant income is outside the scope of this Bulletin. Refer to *GS 022 Grant Acquittals and Multi-Scope Engagements*.

As fundraising activities have shifted more to digital collections in recent years, it is important for NFPs to maintain robust and effective GITC system. ASA 315 requires the auditor to obtain an understanding of the entity and its environment, and the internal controls relevant to the audit, and through this, identify and assess risks of material misstatement. This includes understanding the entity's use of IT and identifying risks arising from IT.

> The AUASB has issued a Bulletin on ASA 315 and the Auditor's Responsibilities for General IT Controls to assist auditors in understanding the role of GITCs in the audit of a financial report and the auditor's responsibilities related to GITCs.

> The AUASB has issued a staff paper on revised ASA 315: Scalability Considerations for Audits of Less Complex Entities (LCEs) to assist auditors of LCEs by highlighting how scalability has been considered in ASA 315. Auditors of NFPs are strongly encouraged to refer to this staff paper if the NFPs are considered less complex.

If the NFP uses a service organisation to collect fundraising revenue, the auditor is required to obtain an understanding of how the NFP uses the service organisation in the NFP's operations[3]. Refer to ASA 402 *Auditing Considerations Relating to an Entity Using a Service Organisation* for more information.

If the NFP does not have a robust and effective GITC system, or if the auditor determines through their risk assessment procedures that it is not appropriate to test the operating effectiveness of controls, the auditor's assessment of the risk of material misstatement arising from the control risk may be the same as the assessment of risk of material misstatement arising from the inherent risk. Refer to Responses to Assessed Risks section below for more information on some of the example audit procedures.

Materiality

The quantity of the fundraising revenue may or may not be a material portion of a NFP entity's total revenue[4]. However, whilst the quantum of fundraising revenue may not be significant, the nature of this type of revenue means that qualitative materiality considerations may be relevant, given the characteristics of the NFP and the nature of and sources from which fundraising revenue is derived. Qualitative factors relating to fundraising revenue that the auditor may consider, include:

- governing documents or reporting frameworks prescribing specific recognition and/or disclosure requirements in the financial report;
- whether law, regulation or the applicable financial reporting framework affect users' expectations regarding the measurement or disclosure of certain items;
- key disclosures in relation to the industry in which the entity operates;
- whether attention is focused on a particular aspect of the entity's operations that is separately disclosed in the financial report; and
- indicators of deviations from normal activities such as the reversal of a trend, turning a loss into a profit or creating or eliminating the net asset position in the balance sheet.

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[3] See paragraph 9 of ASA 402.

[4] For further details on determining Materiality see ASA 320 *Materiality in Planning and Performing an Audit*.

Fraud

As part of risk assessment procedures and related activities performed under ASA 315, the auditor needs to perform certain procedures[5] to obtain information for use in identifying, assessing and responding to risks of material misstatement due to fraud.

Paragraph 27 of ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report* requires that, based on a presumption that there are risks of fraud in revenue recognition, the auditor must evaluate the types of revenue, revenue transactions, or assertions that give rise to such risks. The auditor needs to document whether or not this presumption is applicable in accordance with paragraph 48 of ASA 240. If the presumption of fraud in revenue recognition cannot be rebutted and the NFP has a strong GITC system and internal controls around revenue, the risk of fraud due to revenue recognition may be low, then the audit response to the risk will involve testing the operating effectiveness of these controls[6]. However, if the NFP does not have a robust and effective GITC system and internal controls around revenue and, as a result, the auditor determines that the risk of revenue recognition due to fraud is not low, then the auditor must design further procedures to address this risk in accordance with ASA 240.

If the NFP uses a third-party digital platform to collect fundraising revenue, it is important that the auditor understands how the funds are transferred from the third party to the authorised bank account of the NFP and the controls in place. When funds are transferred digitally, the risk of misappropriation of funds is likely to be low, and consequently the auditor may be able to rebut the presumption of fraud in revenue recognition if the auditor deems that such risks are not present.

Responses to Assessed Risks

The auditor may need to design and perform further audit procedures — the nature, timing and extent of which are based on and are responsive to the assessed risks of material misstatement at the assertion level[7]. In designing these further audit procedures, the following may need to be considered when determining the extent of substantive procedures to be undertaken:

- the likelihood and magnitude of misstatement due to the particular characteristics of the significant class of transactions, account balance, or disclosure; and
- whether the risk assessment takes account of controls that address the risk of material misstatement, thereby requiring the auditor to obtain audit evidence to determine whether the controls are operating effectively[8].

As the revenue of each NFP may be derived from different sources and methods, each source has its own distinct inherent and control risk. In assessing whether cash donations as a portion of fundraising revenue are not materially misstated the auditor's considerations may include:

- the nature of the various sources of fundraising revenue received by the NFP, the risks associated with their method of receipt, including any specific risks in the context of the entity's activities;

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[5] See ASA 240 paragraphs 18 to 25.
[6] See ASA 240 paragraph 48.
[7] See ASA 330 *The Auditor's Responses to Assessed Risks* paragraph 6.
[8] See ASA 330 paragraph 7.

- the possibility that the NFP's records of incoming resources to which it is legally entitled may be incomplete as a result of fraud noting that a common type of fraud against NFPs is the diversion of donations to bank or building society accounts which the NFP governing body does not control;
- the effectiveness of the controls that are applied, given that some controls can usually be established for each source of fundraising revenue; and
- the materiality of each source of fundraising revenue in relation to all of the NFP's revenue.

See example controls and audit procedures in the dedicated Not-for-Profit AUASB webpage for more details.

To assist auditors, the AUASB has issued guidance publications to complement this AUASB Bulletin:

- Example controls and audit procedures relating to fundraising revenue; and
- Templates for audit and review reports

This guidance and other useful resources relevant to the audit of NFPs are published on the AUASB Not-for-Profit page.

As part of the risk assessment procedures and related activities performed under ASA 315, the auditor may be required to perform audit procedures around related party transactions[9]. This is to obtain information relevant to identifying the risks of material misstatement associated with related party relationships and transactions. Large charities are required to disclose remuneration of key management personnel in special purpose financial reports from the 2022 Annual Information Statement (AIS) reporting period[10]. With effect from 1 July 2023, NFPs are required by ACNC to comply with AASB 1024 *Related Party Disclosures*[11].

Forming an Opinion and Reporting

When forming an opinion, the auditor needs to consider whether uncorrected misstatements arising from the fundraising revenue recognition, if applicable, are material[12]. In the event that the auditor is unable to obtain sufficient appropriate audit evidence regarding the cash donations due to the impracticability to establish controls over the collection of cash, the auditor may consider issuing a qualified audit opinion on that basis[13]. Refer to templates for audit and review reports for some examples of qualified opinion paragraphs.

If the auditor considers it necessary to draw users' attention to the revenue recognition policy of the NFP, the auditor may consider including an Emphasis of Matter paragraph in the auditor's report provided[14]. Refer to templates for audit and review reports for some examples of an Emphasis of Matter paragraph.

Finally, the auditor may also need to consider any obligations to communicate significant findings from the audit[15]. This includes considering if there are any significant or other

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9 See ASA 550 *Related Parties* paragraphs 12-17.
10 For more information, see https://www.acnc.gov.au/media/news/charities-urged-get-systems-place-now-comply-new-obligations.
11 For more information, see https://www.acnc.gov.au/for-charities/manage-your-charity/obligations-acnc/reporting-annually-acnc/related-party-transactions.
12 See ASA 450 *Evaluation of Misstatements Identified during the Audit* paragraph 11.
13 See ASA 705 *Modifications to the Opinion in the Independent Auditor's Report* paragraph 6.
14 See ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* paragraphs 8-11.
15 See ASA 260 *Communication With Those Charged With Governance* paragraph 16.

deficiencies in internal control or GITCs mentioned in the internal controls section of this bulletin that may need to be communicated to Those Charged with Governance and management[16].

Where to find further information

Refer to our AUASB Not-for-Profit page on the AUASB website which includes example controls and audit procedures, example auditor's reports and other reference materials produced by other standard setters, professional bodies and academic research.

16 See ASA 265 *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management* paragraphs 7-10.