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For Impact *News for the Not-for-profit Sector*

Avoiding fraud in online banking

Online banking has become the norm, and most of us would think of it as safe and secure, with low associated risks. But vigilance is still required.

Banks and other financial institutions have done much to make online banking as safe as possible. Banks use encrypted webpages or purpose-built software, which abide by strict regulatory requirements.

However we have all heard horror stories associated with online banking, whether it be personal banking or a business processing a monthly trade payables payment run.

In many cases, it is human error that is at the root of any problems. For example, a payment to an incorrectly input account number can result in a painful and costly recovery exercise.

The human element involved when using online banking can compromise security simply through trust (e.g. shared passwords), inaction, or inadvertent errors.

At the heart of any online banking system, an authorised signatory gains access via an authentication process, typically a password or token key, or, for more sophisticated systems, a biometric characteristic such as a fingerprint.

These systems in themselves may be secure and reliable, but their use can be compromised in a number of ways. A password can be shared or hacked, a token key can be lost or taken without knowledge.

Vigilance is vital to protect these systems, but it's not enough on its own. Fraud or error via online banking can occur even without these safety measures failing.

For example, many organisations use a Vendor Master File ("VMF") which contains the key financial information used by their online banking system, to identify to whom funds are to be transferred. This uses BSB and account numbers, not account names.

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Avoiding fraud in online banking (cont)

The most common way fraud arises in online banking is where someone internally has deliberately altered the BSB and account number to their own bank account, but retained the account name to mask the fraud. **Banks do not rely on or check account numbers.**

Another scenario is that the VMF details are legitimately changed by the accounts personnel within the company, after being contacted by an external perpetrator who has managed to convince them of a change in bank details.

It's a good idea to regularly check BSB and account numbers to ensure that they still match those provided by suppliers.

Other ways to improve your online banking system, that require little time or money, include:

- **Passwords** - exposure to phishing scams, malware, or the sometimes necessary and one-off sharing of passwords, means this authentication safeguard may be compromised. Lower the risk by using sophisticated passwords and regularly updating these passwords.
- **Two factor identification** - using two or more factors in the authorisation process, for example a password plus a token key or mobile verification, easily enhances security.
- **Segregation of duties** – for businesses, implementing multiple accounting signatories ensures there is always sufficient personnel available to authorise payments, without the need to share and therefore compromise passwords.
- **Software** - there is now **software available such as EFTsure, which provides real time verification of the BSB and account numbers** to an independently verified database at the critical payment authorisation phase.

TNR strongly encourages clients to review their online banking system, identify the weaknesses, make the necessary improvements and monitor these processes on an ongoing basis.

We also regularly conduct reviews of online banking systems and VMF which ultimately help protect our clients from fraud.

"TNR strongly encourages clients to review their online banking system, identify the weaknesses, make the necessary improvements and monitor these processes on an ongoing basis."

Governance

Protecting whistleblowers gains momentum

The federal government has committed to extending to the private sector whistleblower protections in the Fair Work (Registered Organisations) Act.

It will also support a parliamentary inquiry into whistleblower laws, set up an 'expert advisory panel' to develop draft legislation to act on the inquiry's report and introduce legislation into parliament by December.

The Senate referred an inquiry into whistleblower protections in the corporate, public and not-for-profit ("NFP") sectors to the Joint Parliamentary Committee on Corporations and Financial Services for reporting by 30 June 2017. Submissions are due by 10 February 2017.

The terms of reference are:

- The development and implementation in the corporate, public and NFP sectors of whistleblower protections
- The types of wrongdoing
- The most effective ways of integrating whistleblower-protection into Commonwealth law
- Compensation arrangements in whistleblower legislation
- Measures needed to ensure effective access to justice, including legal services, for whistleblowers
- The obligations on NFPs to prepare, publish and apply procedures to support and protect persons who make or may make disclosures
- The circumstances in which public interest disclosures to third parties and the media should attract protection
- Any other matters relating to the enhancement of protections and the type and availability of remedies for whistleblowers in the corporate, not-for-profit and public sectors, and
- Any related matters.

Other commitments include that the government will:

- Set up an 'expert advisory panel' to develop draft legislation to act on the report
- Introduce legislation into parliament by December 2017 with the support of, at a minimum, the standards now set in the Act, and
- Commit to supporting enhancements to whistleblower protections and commit to a parliamentary vote on the legislation no later than 30 June 2018.

Non-compliance laws to tighten

Ethical responsibilities of accountants and auditors over non-compliance with laws and regulations are about to increase significantly.

Substantial revisions of APES 110 *Code of Ethics for Professional Accountants* ("the Code") are on their way with proposals which were released as a Christmas present by the Accounting Professional and Ethical Standards Board ("APESB"), and revised ethical and auditing standards have been released internationally and are the basis for our local changes!

> "Ethical responsibilities of accountants and auditors over non-compliance with laws and regulations are about to increase significantly."

The proposals address breaches of laws and regulations dealing with matters such as fraud, corruption and bribery, money-laundering, tax payments, financial products and services, environmental protection, and public health and safety.

Non-compliance with laws and regulations comprises acts of omission and commission, intentional or unintentional, committed by a client or by those charged with governance, by management or by individuals working for or under the direction of a client that are contrary to prevailing laws and regulations. In shorthand, it's known as "NOCLAR."

The proposals set out a framework to guide accountants in what actions to take in the public interest when they become aware of a possibly illegal act committed by a client or employer.

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Governance (cont)

Confidentiality requirements in the Code have been revised to require an accountant to determine whether non-compliance needs to be disclosed to an appropriate regulatory authority.

It will no longer be appropriate to ignore non-compliance or just to resign.

Directors, officers or senior employees of an NFP who are a member of accounting bodies such as CAANZ & CPA Australia have responsibilities under the Code.

Because of their roles, positions and spheres of influence, there is a greater expectation for senior professional accountants to take whatever action is appropriate in the public interest to respond to non-compliance or suspected non-compliance.

Their responsibilities require them to:

- Obtain an understanding of the matter
- Address the matter
- Determine whether further action is required, and
- Determine whether to disclose the matter to an appropriate authority.

It is proposed that the changes become operative from 15 July 2017 (the same date as the international Standard).

As the new requirements have been finalised internationally, don't expect any changes to result from the local exposure process. It is APESB policy to comply with international rules.

Every accountant needs to know about their new NOCLAR responsibilities. Entities will need to consider their internal policies and procedures on compliance and the implications of reporting non-compliance. The time to start thinking about it is now!

Directors banned in wake of housing-corporation collapse

The Federal Court in Canberra has banned former directors of the Southside Housing Aboriginal Corporation from managing indigenous corporations.

Southside Housing was established in 1995 to provide affordable housing for Aboriginal and Torres Strait Islander people in Canberra. It owned and managed seven properties funded by the federal government.

The registrar put the corporation into special administration in December 2013 after an examination revealed that most tenants were not paying rent, the corporation had large outstanding debts, two of the corporation's houses were unfit for human habitation and the others required substantial repairs.

All three former directors were found to have breached their duties by not ensuring that the corporation kept adequate books and records. Mr and Ms Monaghan were also found to have improperly used their positions and failed to exercise due care and diligence in managing the corporation and its houses.

ACNC releases cash-reserves guidance

The Australian Charities and Not-for-profits Commission ("ACNC") has released *Charity reserve: financial stability and sustainability*, which encourages charities to maintain cash reserves to ensure financial stability.

The fact sheet provides general guidance on reserves, covering:

- What reserves are and where they come from
- Why it is important to have reserves
- Appropriate levels of reserves, and
- Who has responsibility for reserves?

ACNC Commissioner Susan Pascoe said that the myth that charities should not make a profit or have money in reserve damaged the sector. She hoped that the Guidance's release would help to correct misinformation.

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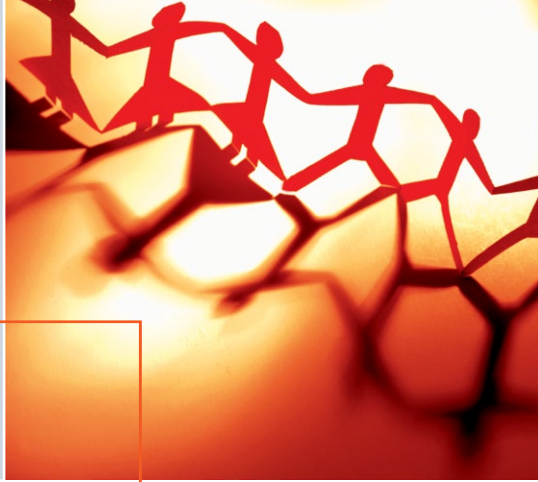

Reserves play an important role in the financial stability and long-term sustainability of a charity, and managing them is an important part of a charity's overall financial management, a crucial element of good governance.

In line with good governance and proper risk-management, a charities' boards, committees and governing bodies should consider an appropriate level of reserves and a strategy for building or spending them that is consistent with its purpose.

'Charities are often trying to get by on very little and sometimes are worried that if they build up healthy reserves, they'll struggle to secure funding. We need to explain to the public that charities need to operate on a sustainable footing to be able to continue their work from one year to the next. Making a profit allows a charity to build reserves and become sustainable,' Ms Pascoe said.

'Charities should have reserves set aside to cover unexpected events or costs – a fund set aside for a rainy day. Even small charities would benefit from a small reserve.

'Maintaining an appropriate level of reserves is responsible financial management. It is important that charity boards properly consider maintaining and managing reserves. This guidance outlines the key considerations for developing a good reserves policy.

'It is important for charities to be transparent about finances. Charity boards should make an effort to explain to funders, donors and the public why they need reserves and the justifications for the decisions they make.'

The guidance document can be found on the ACNC website at acnc.gov.au/charityreserves.

If a charity is a private ancillary fund or a public ancillary fund, it will have different obligations concerning accumulating and distributing reserves.

ACNC releases fundraising agencies guidance

The ACNC and fundraising organisations have released guidance aimed at helping charities protect themselves, fundraisers and the public.

The Commission's partners are the Fundraising Institute of Australia and the Public Fundraising Regulatory Association.

Working with fundraising agencies helps charities manage their links with fundraisers and enter into new agreements while ensuring that they meet their charity-status obligations.

ACNC Commissioner Susan Pascoe highlighted the risk to public trust and confidence as the impetus for releasing the guidance.

'Charity boards cannot outsource their responsibilities,' Ms Pascoe said.

'Charities run the real risk of damaging public trust and confidence in both their brand and the sector more widely if they are being inappropriately represented by third-party fundraisers in the community.

'The board should be satisfied that the fundraising agency they have contracted is aware of its legal obligations, has appropriate policies and processes to ensure compliance, and also shares the values of the charity. A charity must have appropriate oversight of all of the activities conducted by a fundraising agency in the name of the charity.'

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Governance (cont)

Paul Tavatgis, chief executive of the PFRA – a self-regulatory body for face-to-face fundraising in Australia – welcomed the guidance and encouraged charities to consider committing to the association's rules that define how face-to-face fundraisers should behave.

FIA chief executive Rob Edwards welcomed the ACNC's position on governance practices for charities that used fundraising agencies.

'As the national peak body representing professional fundraising in Australia, FIA believes that the fundraising sector can only remain sustainable when there is strong public trust. The FIA's Principles & Standards of Fundraising Practice are the professional fundraiser's guide to ethical, accountable and transparent fundraising. [It is] critical to how the fundraising profession is viewed by donors, government and the community".

Other ACNC resources on fundraising are *ACNC Governance Standards, Fundraising: engaging people in vulnerable circumstances, and Charities and fundraising: FAQs.*

Fundraising and the vulnerable

In collaboration with the Fundraising Institute of Australia, the ACNC has published guidance to help charities that engage with vulnerable people.

Fundraising: people in vulnerable circumstances outlines how charities can recognise people in vulnerable circumstances and suggests ways ofengaging them respectfully when fundraising.

The guidance is available at acnc.gov.au/vulnerablepeople.

ACNC activities

Tick ticked

The ACNC has launched a 'tick of charity recognition', also known as the 'registered charity tick', which allows donors to identify quickly and easily a registered charity.

Displaying the tick is optional, however nearly 2,000 registered charities have already logged into their portals to download it.

Many have used it on their websites, and the ACNC is encouraging them to link the image to their listing on the charity register, giving donors immediate access to a wealth of information.

For more information about the tick, visit acnc.gov.au/registeredcharitytick.

Avoid making mistakes in your 2016 AIS

Charities that report using the standard 1 July to 30 June financial year are required to submit their 2016 annual information statements ("AIS") before 31 January.

To help charities avoid making mistakes, the ACNC has published 10 top tips:

- Make sure that your address for service email is not your personal email
- Will you report as a basic religious charity? Know the requirements
- Make sure you select the right activities for your charity
- Remember to provide financial information
- Check that the financial information you enter is correct
- Know your financial report type
- Will you provide a consolidated financial report? Consolidated financial reports are accepted, but don't forget that financial-information questions are only for registered charities and not entire groups
- Make sure you attach all required documents. For medium and large charities these include: statements of profit or loss and other comprehensive income, statements of financial positions, statements of changes in equity, statements of cash flows, notes to the financial statements,

The ACNC has also released a series of instructional videos to help charities to complete their statements.

reviewer's report/auditor's report signed and dated, and signed and dated responsible persons' declarations about the statements and notes

- Preparing a special purpose financial statement? Remember the accounting standards. You need to comply and state that the financial statement is prepared in accordance with the six mandatory accounting standards, and
- Preparing a general-purpose financial statement? Check the completeness and quality of the related-party disclosures. Make sure you comply with all relevant accounting standards and provide sufficient detail of transactions between related parties and key management-personnel compensation.

The ACNC has also released a series of instructional videos to help charities to complete their statements. The screencasts take viewers step-by-step through several obligations.

Basic religious charities reclassify

In 2015-16, the ACNC began to identify registered charities that might have incorrectly classified themselves as a basic religious charity ("BRC").

More than 300 contacted by the ACNC changed their subtype from BRC, providing financial information to the commission as part of their annual information statements. Information on the charity register was corrected.

Third charity report released

Recently released, the *Australian Charities Report 2015* contains new information about the size, activities and impact of Australia's charities.

The third edition is the first to compare findings with those of previous years.

The report amounts to the ACNC's annual flagship research and is essentially a charity-sector census. Produced by the Centre for Social Impact in partnership with the Social Policy Research Centre at the University of New South Wales, it analyses data submitted in 2015 annual information statements by almost 51,000 registered charities.

The report found that:

- Total income had grown 2 per cent to more than $134 billion
- Donations and bequests grew 2.4 per cent to $11.2 billion
- There were nearly three million volunteers
- Nearly half of all charities were run solely by volunteers
- 1.2 million Australians were employed by a registered charity (around 10 per cent of the total workforce), and
- The majority (67 per cent) of charities were small, with annual revenue of $250,000 or less.

The report is a valuable resource for charities, donors, governments, researchers and the community to understand better the sector.

It and shorter summary reports as well as an interactive data cube are available at australiancharities.acnc.gov.au.

Public benevolent institutions clarified

The ACNC has published a new Commissioner's interpretation statement on public benevolent institutions, which are set up to help relieve poverty, sickness, disadvantage and suffering.

Registered charities with PBI status are granted deductible-gift-recipient status by the Australian Taxation Office ("ATO").

Many organisations seek registration as PBIs, and the statement provides clear guidance on the criteria for qualification. It defines a PBI and how the Commission will apply the law in considering applications.

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ACNC activities (cont)

The statement outlines the ACNC's current understanding of the law concerning PBIs and how organisations may fit the charity subtype. It is binding on ACNC staff making decisions about PBIs.

According to the *Australian Charities Report 2015*, 16% of registered charities – more than 8,000 – are PBIs. The percentage of registered charities with PBI status increases to 30% when focussing on large registered charities, those with annual revenue of $1 million or more.

ACNC issues penalty notices

The ACNC has issued several penalty notices to charities for failing to lodge outstanding AISs.

Notices have been sent to 40 large charities with annual revenue of $1 million or more, and combined assets of more than $70,000,000. The charities' statements were more than eight months overdue.

They were given multiple reminders, including a final warning letter. Penalised charities might be fined up to $4,500.

Beware of advocacy risk

During and following the federal election campaign, the ACNC received 19 complaints about the conduct of 11 registered charities. Five of the matters have progressed to an investigation, one charity receiving a show-cause notice, which will give it a chance to explain itself.

Registered charities should familiarise themselves with the ACNC guidance on this topic. Charities, elections, and advocacy is available for download at acnc.gov.au/advocacy.

Financial Reporting

Australian Accounting Standards AASB 1058 *Income of Not-for-Profit Entities* issued

This Standard was issued in December 2016, and will have a significant impact on many NFPs, and when they recognise Revenue.

Under the new AASB 1058 *Income of Not-for-Profit Entities*, revenue from grants and donations will be recognised when any associated performance obligation to provide goods or services is satisfied, and not immediately upon receipt as currently occurs.

More assets will be recognised in the financial-position statement under the new requirements, including leases with significantly below-market terms and conditions.

In addition to AASB 1058, two related amending standards are AASB 2016-7 *Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities*, and AASB 2016-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities*.

AASB 1058 establishes principles for NFPs that apply to transactions where the consideration to acquire an asset is significantly less than fair value principally to enable an NFP to further its objectives, and the receipt of volunteer services.

AASB 1058 applies for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted provided that entities apply AASB 15 *Revenue from Contracts with Customers* in the same period.

AASB 1058 clarifies and simplifies income-recognition requirements that apply to NFPs in conjunction with AASB 15. The standards supersede income-recognition requirements private-sector NFPs and most of the income-recognition requirements for public-sector NFPs previously in AASB 1004 *Contributions*.

The requirements of AASB 1058 address transactions that are not contracts with customers. The timing of income recognition depends on whether such a transaction gives rise to a liability or other performance obligation (a promise to transfer a good or service), or a contribution by owners, related to an asset (such as cash or another asset).

AASB 1058 applies when an NFP receives volunteer services or enters into other transactions where the consideration to acquire an asset is significantly less than the fair value of the asset, principally to enable the entity to further its objectives. In the latter case, the entity recognises and measures the asset at fair value in accordance with an applicable Australian accounting standard, for instance, AASB 116 *Property, Plant and Equipment*.

Upon initial recognition of the asset, AASB 1058 requires NFPs to consider whether any other financial-statement elements (called 'related amounts') should be recognised, such as contributions by owners, revenue, or a contract liability arising from a contract with a customer, a lease liability, a financial instrument, or a provision. Related amounts are accounted for in line with applicable standards.

If a transaction is a transfer of a financial asset to enable an entity to acquire or construct a recognisable non-financial asset to be controlled by the entity (that is, an in-substance acquisition of a non-financial asset), the entity recognises a liability for the excess of the fair value of the transfer over any related amounts recognised.

The entity recognises income as it satisfies its obligations under the transfer similarly to income recognition on performance obligations under AASB 15. If the transaction does not enable an entity to acquire or construct a recognisable non-financial asset to be controlled by the entity, then any excess of the initial carrying amount of the recognised asset over the related amounts is recognised as income.

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Financial Reporting (cont)

When an entity receives volunteer services and can reliably measure the fair value of those services, it may elect to recognise the services as an asset (provided the relevant asset-recognition criteria are met) or an expense. Local governments, government departments, general government sectors and the whole of governments are required to recognise volunteer services if they would have been purchased if not provided voluntarily and the fair value of those services can be measured reliably.

Significant transitional relief has been provided as well as numerous illustrative examples.

Audit

Enhanced audit-reporting standards apply

A new suite of enhanced audit-reporting standards applies to periods ending on or after 15 December 2016. The new and revised standards affect general-purpose and special-purpose financial statements.

Preparers should also pay attention to a new format for an auditor's report, and, in particular, changes to the descriptions of management's responsibilities for a financial report, description of an auditor's responsibilities and an audit's key features.

As well as the significant changes to the format and content of auditors' reports, there are significant changes to:

- An auditor's responsibility over 'other information'
- Going concern basis, and
- Audits of accounting disclosures.

The new auditing standards are likely to drive changes to financial statements in terms of:

- Better alignment of financial-reporting disclosures with 'other information' contained in the annual report
- Improved going concern disclosures, and
- Removal of immaterial disclosure and improved disclosures generally.

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