Not-for-Profit Newsletter

Edition 1

Contents

Welcome to Nexia' s new Not-for-Profit Newsletter. For those of you who have come across as clients/contacts of Hill Rogers, welcome! This newsletter is a continuation of the NFP Newsletter that Hill Rogers published on a quarterly basis – just in the new Nexia branding which Hill Rogers have adopted since merging with us.

A quick note about the merger

The whole of Nexia Sydney Office, both old and new team members, are very excited about the opportunities that are already coming out of the woodwork since our merge on 1 July. Everyone has settled in nicely and we have been happy to see so many new client faces around the office. If you do have any questions about the recent merger please feel free to get in contact with your Advisor or Engagement Partner.

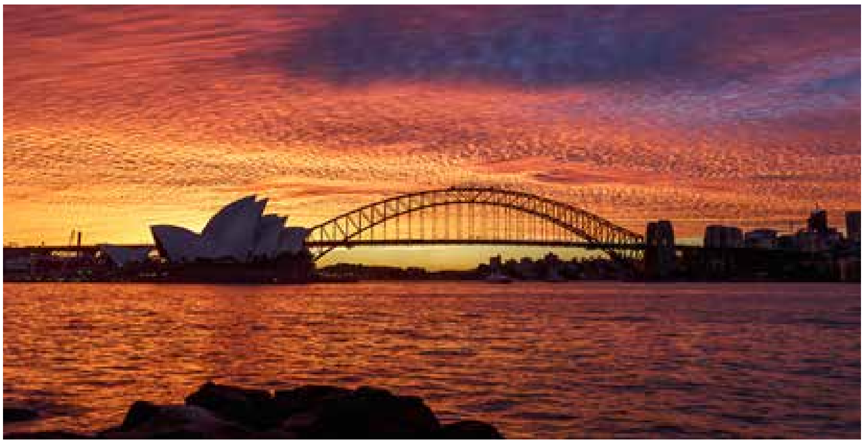
In this edition

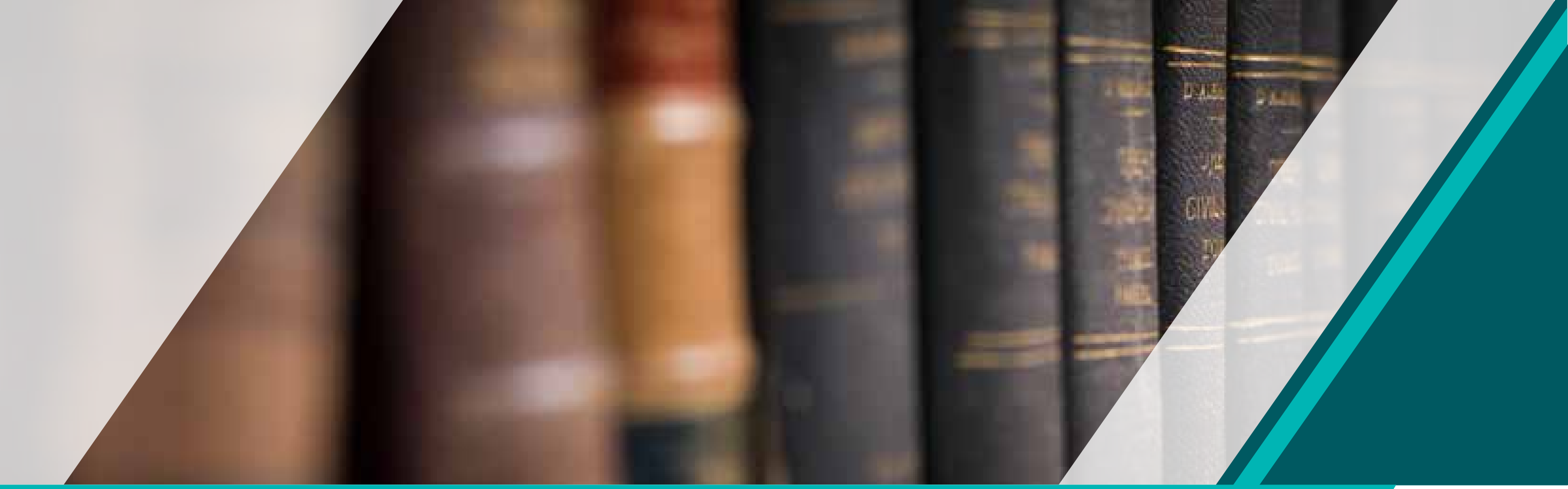
The ACNC have recently released a guide to assist not-for-profits in protecting their organisation from fraud. The guide highlights risks and provides practical advice on how to manage them. The ACNC have also released its fifth annual report as well as new resources for small charities including factsheets, guides and templates.

In keeping with the focus on good governance, this edition also provides an overview of the updated Code of Ethics for Professional Accountants that will apply accounting body members in business (including not-for-profits) and an update on the new whistleblower protection regime.

AASB 16, the new accounting standard on leases, became operative on 1 January. For entities with a June year end, this standard will need to be applied in the 2019/20 financial statements and may have a significant impact on the reported financial results of some not-for-profits. We have provided a to-do list to consider in preparation for the adoption of the standard.

This edition also covers other financial reporting insights as well as new legislation and reporting requirements that that may impact some NFPs.





Governance

Fraud guide released

The Australian Charities and Not-for-profits Commission has released *Protect your charity from fraud – the ACNC guide to fraud prevention*.

It's opportune – fraud and financial crime are among charities' biggest worries.

The guide highlights some of the risks charities face and provides practical steps that can be taken to reduce and manage them.

Aimed at board and committee members, trustees and charity managers, it should also interest employees and volunteers.

- The guide covers the following:
- Why is this guide needed?
- What is fraud?
- What types of fraud are there?
- Are charities particularly vulnerable to fraud?
- What are the legal duties and responsibilities of those governing and managing charities?
- What can I do to protect my charity?
- The ACNC's approach to reports of fraud, and
- Case study: uncovering a fraud.

The commission's top tips to protect charities from fraud are:

Tip	Action
Clear, written financial procedures and delegations	Have staff and volunteers follow proper financial controls. For example, always have two people involved in handling money and cheques. Establish clear financial-delegation guidelines.
Robust HR procedures	Ensure recruitment processes are sound and provide training and communication to staff and volunteers about fraud prevention.
Establish a code of conduct	Demonstrate and encourage ethical behaviour. Display codes of conduct prominently and embody it.
Define financial responsibilities	Ensure people with financial responsibility are competent and understand their roles. Have written role descriptions that set out what to expect from staff, including financial responsibilities.
Develop a fraud-prevention policy	Fraud-prevention policies should specify the steps a charity takes to prevent, identify and respond to fraud, as well as who is responsible for them.
Be secure when banking online	Ensure accounts and online banking passwords are secure, and limit who has access to them. Regularly change passwords.
Limit cash handling	The presence of large amounts of cash can encourage theft and fraud. Limit the amounts staff and volunteers may handle.
Monitor bank accounts, budgets and grant funding	Monitor your accounts and budget, and identify variations and things that don't make sense. Ask questions about variations. Keep track of how grant funds are used.
Ask questions	Board members should feel comfortable asking questions about their charity's finances, and managers should make sure that staff are accountable.
Understand the importance of reporting fraud	Ensure staff and volunteers understand the importance of reporting fraud and that there is a clear process on how to report to senior management, the police and the ACNC.

Reforms to the whistleblower protections regime

The ACNC has advised that several charities will be affected by upcoming changes to whistleblower protection laws.

From 1 July, whistleblower protections in the Corporations Act 2001 will be expanded to provide greater shielding for whistleblowers who report misconduct about companies and company officers.

The reforms, which will be enforced by the Australian Securities & Investments Commission, are designed to broaden the definition of whistleblower, extend whistleblower protections and create provisions for civil penalties.

Changes in the Corporations Act will apply to companies registered with ASIC (public companies, including companies limited by guarantee). It will also apply to incorporated associations that are significantly or principally engaged in trading or financial activities. Charities that are incorporated associations will therefore need to decide if this applies to them.

Whistleblower protection provided for persons who make eligible disclosures about the tax affairs, including tax avoidance, of another entity. Separately administered by the Australian Taxation Office, the protections are detailed on the ATO website at ato.gov.au.

The ACNC encourages charities to consider whether they have an appropriate plan for managing whistleblower disclosures. It encourages public companies and incorporated associations to make themselves familiar with the requirements and obligations of the new rules.

The commission will soon publish more information about whistleblower protections.

ACNC Activities

Latest charity sector insights

The ACNC has released its fifth annual report, which provides invaluable insight into Australia's charity sector.

There are now more than 57,500 charities registered with the ACNC. The Australian Charities Report 2017 analyses annual information statements from about 47,000 charities — those that were submitted by 13 February this year.

Key findings include:

- Total revenue of $146.1 billion
- Government grants as a revenue source increased by $7 billion
- Donations and bequests as a revenue source totalled $9.9 billion
- There were 3.3 million volunteers across Australia's charities
- Most registered charities (36 per cent) are 'extra small', a subset of 'small'
- 30 per cent of charities reported that their main activities were religion-related, and
- 4567 charities operated overseas, mostly in India, the Philippines, Papua New Guinea, Indonesia and New Zealand.

The report corroborated many findings from previous years:

- Most charities are small — with annual revenue of less than $250,000 (65 per cent)
- The most common activity is religion (30 per cent)
- The geographic distribution of charities aligns with Australia's population, New South Wales, Victoria and Queensland, in that order, being home to most, and
- Just under half of all charities (49 per cent) were run solely by volunteers.

The commission noted some significant changes, for example:

- Donations and bequests made to registered charities were $9.9 billion, a decrease of $600 million
- Total combined revenue increased from $143 billion in 2016 to $146 billion
- Government funds to charities increased by $7 billion
- Total combined employee expenses decreased to $74.8 billion, down from $75.4 billion in 2016, and
- 400,000 more people volunteered for a registered charity.

The full report can be downloaded at acnc.gov.au/charitiesreport.

New resources for small charities

A new collection of resources designed specifically for small charities has become available on the ACNC website.

The Small Charities Library contains factsheets, guides and templates designed to provide Australia's smallest charities with information, advice and tools to help them to manage their organisations, run effective meetings and ensure that they understand and meet their ACNC obligations.

Explore the resources at https://www.acnc.gov.au/node/4478081.

ACNC's performance under the spotlight

The Australian National Audit Office has announced a performance audit of the ACNC's regulation procedures.

The ANAO proposes to examine:

- Registering charities and maintaining the charity register
- Supporting charities to meet their compliance obligations, and
- Reducing their regulatory burden and strengthening the sector.

Lodge your submission at https://www.anao.gov.au/work/performance-audit/regulation-charities-australian-charities-and-not-profits-commission by 25 August.

Financial Reporting Insights

AASB 16 Leases is live – act now

AASB 16 Leases became operative on the first of January. If you haven't thought about it it's time you did. Implementing Leases isn't easy.

More than 340 pages of authoritative material and four related interpretations replace the 30-year-old AASB 117 forerunner. Ninety pages cover the standard itself, and 57 give examples. There are 90 pages of bases of conclusions and 103 of effects analyses.

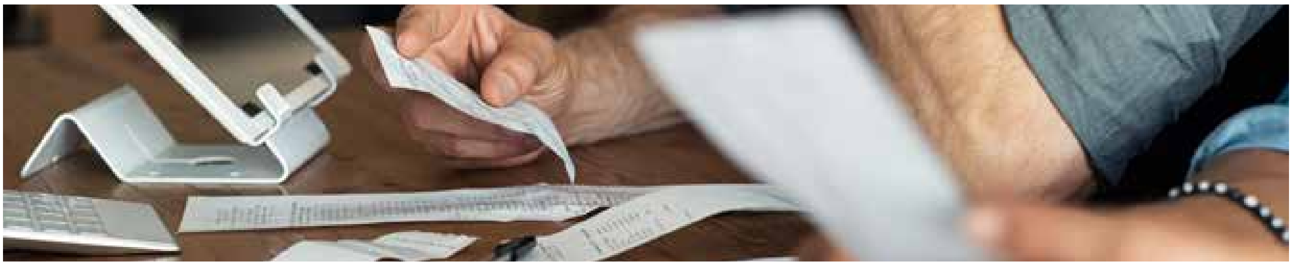
To say the least, the new Leases presents a significant challenge for CFOs.

Simply put, AASB 16 eliminates the classification of leases as either 'operating' or 'finance' for lessees. There is now a single lessee model, which requires a lessee to recognise on the statement of financial position a right-of-use asset and a liability for leases with terms of more than 12 months unless the underlying asset is of low value.

Simple in theory but not in practice.

Some basic questions will get you thinking. What is a lease under AASB 16? Where is my lease documentation? Is it complete? What other agreements are there that could be a lease? What data do I need to capture? What does a 'make good' liability mean? What practical expedients are there on transition? How do I estimate the lease term? How are separate components identified and accounted for? Which transitional method should I use? What discount rates should be used? Do I have to account for my sub-lease as a lessor? Do 'peppercorn' leases for not-for-profits have transitional relief? What software options are available?

The questions abound.



The CFO to-do list includes:

- Get your operating lease commitment disclosure right under existing AASB 117 Leases
- Become familiar with the requirements of AASB 16 and 'peppercorn' transitional relief (AASB 2018-8 A*mendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-profit Entities*).
- Perform a 'stocktake' of your lease portfolio – obtain original lease documents and understand leasing arrangements
- Field-test the impact of AASB 16 on a few contracts
- Conduct an initial assessment of AASB 16's effect (for example, size threshold, bank covenants, and strategic business decisions), seek audit input, prepare governance papers and seek the board's approval
- Educate other affected individuals within the organisation
- Evaluate sufficiency of accounting processes and controls
- Develop a detailed accounting policy that, inter alia, addresses the decisions made
- Update your financial statements template for AASB 16 presentation and disclosures as well as for peppercorn leases
- Consider software solutions for lease management
- Quality-assure your decisions and continue the dialogue with your auditor, and
- Communicate what is coming to stakeholders.

Don't forget that AASB 15 Revenue from contracts with customers and AASB *1058 Income for Not-for-profit entities* also apply to 31 December balance dates for the first time.

None of them is easy nor are they set and forget. They will pose ongoing challenges at reporting dates.

New NFP definition and guidance proposed

The Australian Accounting Standards Board has issued exposure draft *Not-for-Profit Entity Definition and Guidance* that proposes to replace the existing NFP definition.

This draft proposes to:

- Retain the term 'not-for-profit entity'
- Revise the definition to align with the definition of a Public Benefit Entity in NZ accounting standards
- Remove the NFP-entity definition from AASB 102 Inventories, AASB 116 Property, Plant and Equipment and AASB 136 Impairment of Assets and include both the revised definition and the guidance in AASB 1057 Application of Australian Accounting Standards, and
- Include it in AASB 1057 Appendix B Implementation guidance: When is an entity a not-for-profit entity: Implementation guidance to support the revised definition.

Existing definition	Proposed definition
'An entity whose principal objective is not the generation of profit. A not-for-profit entity can be a single entity or a group of entities comprising the parent entity and each of the entities that it controls.'	'An entity whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders.'

The proposed appendix B to AASB 1057 addresses the following:

- Purpose
- Definition of an NFP entity
- Indicators (stated objectives, nature of the benefits, including the quantum of expected financial benefits, primary beneficiaries of the benefits, nature of equity interest, purpose and use of assets, and nature of funding)
- Conflicting indicators, and
- Changing classification.

An entity's classifications as either 'for-profit' or 'not-for-profit' is important as different recognition, measurement, presentation and disclosure requirements may also apply under Australian accounting standards.

The distinction might become even more significant if the AASB develops a separate NFP-entity financial-reporting framework with simplified recognition and measurement requirements and several NFP reporting tiers.

Submit your comments to the AASB by 9 September.

SPFSs to disclose new compliance measures

The AASB has issued Exposure Draft 293 *Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Compliance with Recognition and Measurement Requirements.*

It proposes that entities preparing special-purpose financial statements disclose explicitly whether accounting policies they applied comply with all the recognition and measurement requirements of Australian Accounting Standards.

ED 293 proposes that for-profit entities lodging SPFSs with ASIC and NFPs lodging them with the ACNC disclose compliance in an explicit statement.

Information about whether entities have subsidiaries or investments in associates or joint ventures and how they have accounted for them would also be required.

AASB contends that although users of SPFSs should be able to demand any information they need; this not always happens. The proposals in ED 293 are aimed at addressing concerns that the quality of disclosures in a significant number of SPFSs fails to enable users to determine what additional information they might need.

ED 293 proposes that entities lodging SPFSs with either ASIC or the ACNC (that is, entities required to comply with AASB 1054 *Australian Additional Disclosures),* disclose:

- The basis on which a decision to prepare an SPFS was made
- Where the entity has subsidiaries, investments in associates or joint ventures, whether or not they have been consolidated or equity-accounted in a manner consistent with the requirements set out in Australian Accounting Standards. If an entity has failed to consolidate its subsidiaries or equity-accounted its investments in associates or joint ventures consistently with requirements, it must disclose it, and give reasons. If an NFP has failed to determine whether or not its interests in other entities give rise to interests in subsidiaries, associates or joint ventures, it must instead disclose it, and
- An explicit statement as to whether or not accounting policies applied in statements comply with recognition and measurements, and, if not, give an indication of where they do not comply.

Where an entity's accounting policies fail to comply with recognition and measurements, the AASB is not proposing, and does not expect, a quantification or reconciliation of the extent of non-compliance.

The proposed standard is an interim measure intended to provide greater transparency for users of publicly-lodged SPFSs and to improve their comparability with other financial statements.

A broader project proposes to remove the ability of certain entities to prepare SPFSs when they should comply with Australian Accounting Standards and replace them with general-purpose financial statements.

The ED proposes that the disclosures apply to annual reporting periods ending on or after 30 June 2020. Entities are encouraged to adopt early the proposed disclosures.

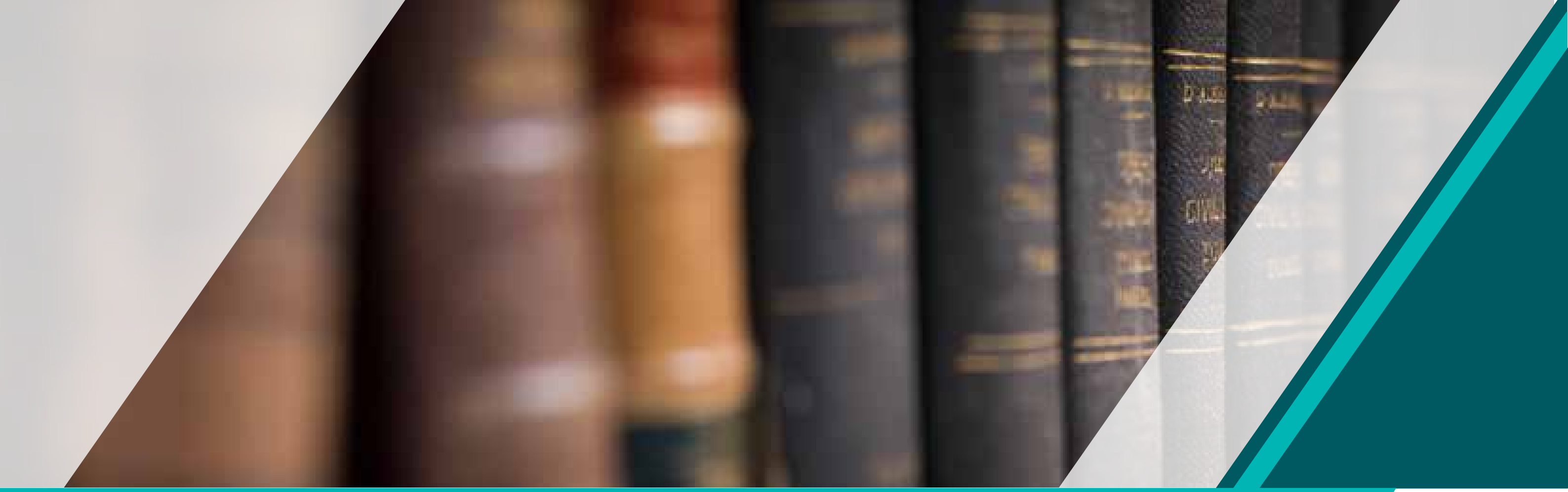
Progressing the Framework for financial reporting

A new Conceptual Framework has been issued for for-profit private-sector entities that have public accountability and are required by legislation to comply with Australian Accounting Standards.

It applies to annual reporting periods beginning on or after 1 January 2020.

The AASB is continuing to develop Phase 2 of the Framework project, which will extend the it to more for-profit private-sector entities.

NFPs will continue to reference the existing *Framework for the Preparation and Presentation of Financial Statements* until it is replaced.



Fraud and NOCLAR

NSW charity's bookkeeper jailed for fraud

A trusted bookkeeper who stole more than $330,000 from the Tuggerah-based charity Autism Central Coast, Marissa Esposito has been jailed for two-and-a-half years with a non-parole period of a year.

Gosford Local Court magistrate John McIntosh said that Ms Esposito's actions were a breach of trust that involved 'systematic thieving' to feed a pokies and online-shopping addiction.

The North Gosford woman pleaded guilty to two counts of dishonestly obtaining property by deception from April 2017. She transferred the money *from the charity's accounts into her own personal bank accounts, claiming that the funds were for staff wages, superannuation payments and insurance fees.*

Ms Esposito also stole $3415.76 from a day-care centre linked to the charity when handling their accounts. Her fraud continued until she went on maternity leave in August last year and an audit conducted by another bookkeeper revealed the missing money.

Ethics

Getting to know your new ethical responsibilities

The restructured Code of Ethics for Professional Accountants (including Independence Standards) is operative from 1 January next year. The revision is substantial. Sixty requirements apply to members in business and that includes not-for-profits.

The code sets out fundamental ethical principles, reflecting the profession's recognition of its public-interest responsibilities. The principles establish standards of behaviour expected of accounting-bodies members whether in business or public practice.

A member in business must comply with the fundamental principles and apply the conceptual framework to identify, evaluate and address threats to compliance with them.

Parts 1 and 2 apply to members in business.

- Part 1 – Complying with the Code, Fundamental Principles and Conceptual Framework, which includes the fundamental principles and the conceptual framework and is applicable to all members, and
- Part 2 – Members in Business (including employment relationships of Members in Public Practice), which sets out additional material that applies to members in business when performing professional activities.

Members in business include members employed, engaged or contracted in an executive or non-executive capacity in, for example, commerce, industry or service, the public sector, education, the not-for-profit sector, regulatory and professional bodies.

The code requires that:

- Members comply with the fundamental principles of ethics, and
- That they apply the conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles. (Applying the conceptual framework requires exercising professional judgement, remaining alert for new information and to changes in facts and circumstances, and using the reasonable and informed third-party test).

The conceptual framework specifies how a member should:

- Identify threats (self-interest, self-review, advocacy, familiarity, intimidation) to compliance and with the fundamental principles
- Evaluate the threats, and
- Address them by eliminating or reducing them to an acceptable level (a level at which a member using the reasonable and informed third-party test would probably conclude that the member complies with the fundamental principles).

Threats to compliance with the fundamental principles fall into one or more of the following categories:

Threat	Explanation
Self-interest	The threat that a financial or other interest will inappropriately influence a member's judgement or behaviour.
Self-review	The threat that a member will not appropriately evaluate the results of a previous judgement made or an activity performed by him or her or by another individual within his or her firm or employing organisation on which he or she will rely when forming a judgement as part of performing an activity.
Advocacy	The threat that a member will promote a client's or employing organisation's position to the point that the member's objectivity is compromised.
Familiarity	The threat that due to a long or close relationship with a client or employing organisation a member will be too sympathetic to their interests or too accepting of their work.
Intimidation	The threat that a member will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over him or her.

Safeguards are actions, individually or in combination, that a member takes that effectively reduce to an acceptable level threats to compliance.

The conceptual framework recognises that the existence of conditions, policies and procedures established by the profession, legislation, regulation, the firm, and the employing organisation might affect identifying threats. Conditions, policies and procedures might also be a relevant factor in a member's evaluation of whether a threat is at an acceptable level.

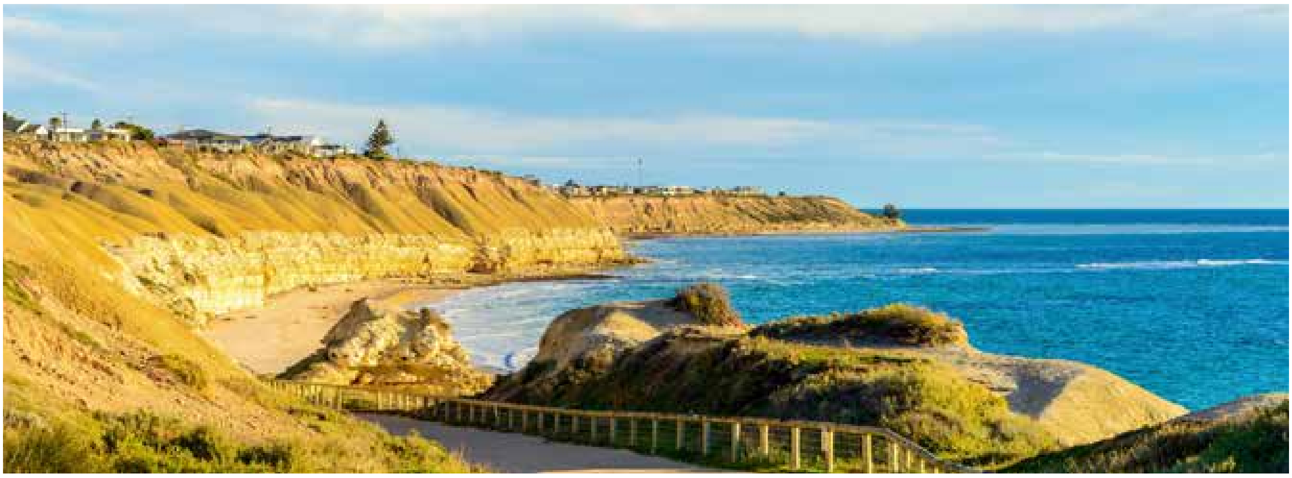
When threats are not at an acceptable level, the framework requires a member to address them.

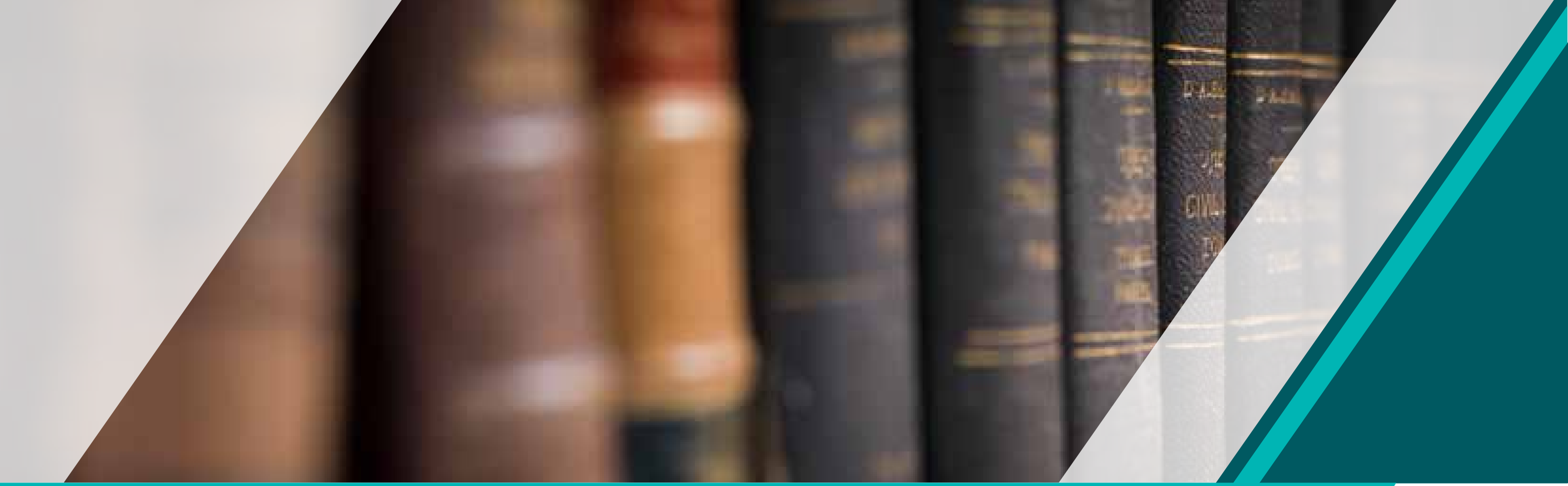
Applying safeguards is one way that threats might be addressed. Safeguards are actions done individually or in combination that effectively reduce threats to an acceptable level.

The code also contains sections on specific topics for members in business:

- Conflicts of interest (Section 210)
- Preparation and presentation of information (Section 220)
- Acting with sufficient expertise (Section 230)
- Financial interests, compensation and incentives linked to financial reporting and decision-making (Section 240)
- Inducements, including gifts and hospitality (Section 250)
- Responding to non-compliance with laws and regulations (Section 260), and
- Pressure to breach fundamental principles (Section 270).

We will analyse in future editions other elements of the code.





Governments and the ATO

New laws for NSW retirement villages

The NSW Retirement Villages Amendment Act 2018 came into force on 1 July.

New laws include:

- Mandatory rules of conduct for operators that are designed to establish a benchmark for the conduct and behaviour of operators, penalties for breaches coming into effect from 1 January
- New emergency-management requirements designed to ensure that villages are well prepared to deal with an emergency
- Giving residents the opportunity to get an annual update on the costs that would be associated with their leaving the village through a 'contract check-up' meeting with the operator, and
- Giving residents scrutiny and approval rights over the appointment of the person to audit the village's accounts.

For operators, guidelines have been developed to help them to implement the new requirements. They include guidance on contracts, emergency plans, evacuation exercises, and annual audits.

For more information visit https://www.fairtrading.nsw.gov.au/about-fair-trading/legislation-and-publications/changes-to-legislation/retirement-village-laws-and-inquiry.

Reporting changes for charitable associations

New South Wales associations registered as charities should remember that they no longer need to lodge an annual summary of financial affairs with NSW Fair Trading and pay the lodgement fee. The change occurred on 1 October last year.

Charities must, however, lodge an annual information statement (and financial statements if required) with the ACNC each financial year. The information previously provided to Fair Trading will be collected by the ACNC and sent securely to the former.

The ACNC's annual information statement for NSW organisations has been updated to include extra questions that Fair Trading want answers to.

All questions must be answered, including providing an association's NSW registration number and name so it can be correctly identified as being exempt. If the association chooses not to answer one or more of the questions, it will need to lodge its annual summary with Fair Trading and pay the fee.

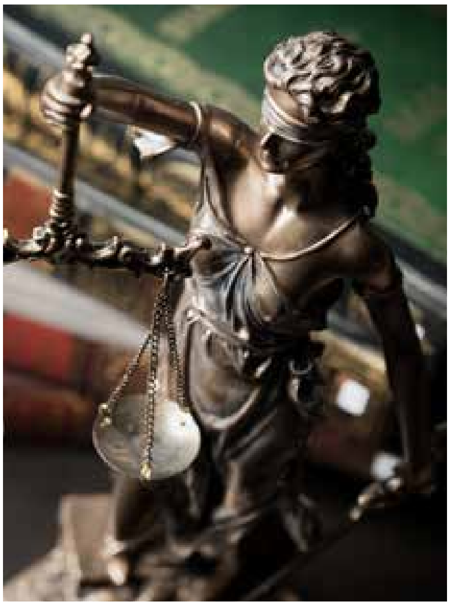
Incorporated associations must continue to notify Fair Trading of any changes to names, details, constitutions and public officers. If an association is not on the ACNC charities register it must report to Fair Trading and a lodgement fee must be paid.

Associations must hold their AGMs within six months of their financial year-ends. Financial statements must be submitted to members at the meeting.

Visit the https://www.fairtrading.nsw.gov.au/associations-and-co-operatives/associations/running-an-association for more information about reporting obligations.

Change do not apply to charities approved by the ACNC to withhold details (for example, revenue or address) or financial reports from the ACNC register.

NFPs move to STPs



If your NFP has 19 or fewer employees you will need to start reporting through Single Touch Payroll between 1 July and 30 September. This means you report your employees' tax and superannuation information to ATO each time you pay them.

The ATO has made several resources available to assist with transition to STP, including a: guide for small employers, a list of STP software providers and a news, events and resources page

If your NFP has between one and four employees and doesn't use payroll software, other ways to report STP information are:

Implementing a no-cost and low-cost solution for STP that may include simple payroll software, mobile phone apps and portals, and

Working with a registered tax or BAS agent – you can report your STP information quarterly at the same time you lodge your business activity statements rather than each payday. Your tax or BAS agent will still need to report your STP information through a STP-ready solution. The option is available only until 30 June 2021.

For more information visit https://www.ato.gov.au/Non-profit/Newsroom/Lodgment-and-concessions/Single-touch-payroll-for-small-employers/.

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