



BDO International

# BDO not-for-profit fraud survey 2008





BDO not-for-profit  
fraud survey 2008



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# Introduction

Welcome to the BDO *not-for-profit fraud survey* 2008, the second biennial survey.

We believe the ongoing research we are undertaking for the sector will help not-for-profit organisations in the fight against fraud. Even if you have not experienced a fraud in your organisation, please take the time to read the survey and understand how the information it presents can help protect your organisation and its mission.

It must be remembered that no organisation is immune to fraud and its consequences. If fraud occurs in your organisation, it isn't just taking funds away from the organisation, it is taking funds away from your mission. The cost of fraud also continues to mount when you consider the time taken to investigate any fraudulent activity!

While you may not make the connection initially between the state of the world economy and the risk of fraud, you should consider the following: some of the key reasons cited by perpetrators of fraud were financial problems/pressures and the maintenance of a lifestyle. So while you may not think that rising interest rates, rising house prices and the issues in the United States economy are relevant to your business, think again. In times like this, more people will face financial pressures and are more likely to succumb to the opportunity to ease the stress of their financial situation.

As with the BDO *not-for-profit fraud survey* 2006 there are positive results from the survey. It should be noted though that there remain areas where the sector can improve. The fight against fraud is a continuing battle.

We would like to thank all of those organisations that took the time to complete the survey. Your contribution is invaluable and your honesty in responding provides valuable information to the sector.

We would like to thank Professor Peter Best from the University of Southern Queensland and Sherrena Buckby from the School of Accountancy at the Queensland University of Technology for their significant contribution once again, in analysing the survey data and co-writing the survey. Also thank you to Belinda Busoli and her team at Not-for-Profit Network for their continued contribution and to those organisations that provided additional information to the survey.



Lisa Bundesen  
Partner, Forensic Accounting  
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# Author biographies

## **Dr Peter Best**

*B.Com (hons), MEngSci, PhD, FCPA, CA*

Professor Best is Head of the School of Accounting, Economics & Finance at the University of Southern Queensland. He has formerly held positions at University of Queensland, Newcastle University, Adelaide University, Flinders University and Queensland University of Technology.

He has qualifications in accounting, operations research and information technology. His PhD examined the feasibility of machine-independent audit trail analysis in large computer systems. His teaching, research and consulting experience includes electronic business intelligence and data mining, enterprise systems (SAP), IT governance processes and measurement, information systems security (SAP), computer assisted audit techniques, knowledge based systems, fraud detection, anti-money laundering and audit trail analysis.

## **Sherrena Buckby**

*B.Bus (Acc), M.Bus (Acc), Grad Dip FET, CPA*

Sherrena Buckby is a Lecturer in the School of Accountancy, Faculty of Business at the Queensland University of Technology. She has held previous positions in professional accounting firms and mining companies.

Sherrena focuses on research in governance including audit committees, IT governance and fraud and data analysis including business intelligence and fraud analysis. She is particularly interested in the impact many of these issues have on the not-for-profit sector. Sherrena teaches in the electronic business and computerised accounting units.

## **Lisa Bundesen**

*B.Com, B.Econ, MTCP, CA, CFE*

Lisa has over 18 years investigation and forensic accounting experience including almost five years as an Investigative Accountant with the Queensland Police Service Major Fraud Investigation Group. During this time Lisa has conducted numerous fraud investigations for organisations including not-for-profits. Lisa also assists organisations on a regular basis in the development of anti-fraud programs. Lisa regularly acts as an expert witness in Magistrates, District and Supreme Courts.

# Executive summary

The information contained in this survey, combined with the information from the BDO *not-for-profit fraud survey 2006* provides a benchmark for not-for-profit organisations in understanding the risks associated with fraud and how organisations are fighting those risks.

A total of 384 responses were received from the not-for-profit sector. It is important to note that not all respondents answered every question and also some questions allowed respondents to provide more than one answer.

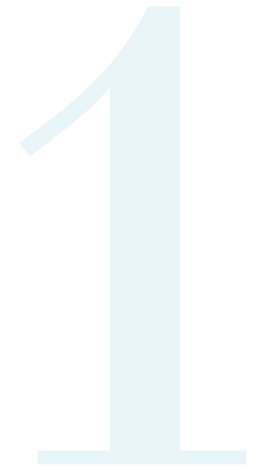
Our major findings are as follows:

- The majority of respondents (93%) had their main operations in Australia or New Zealand.
- 4% of respondents hired no employees while 38% of respondents had no volunteers.
- Not-for-profit organisations perceived fraud to be a problem more so for the sector (66%) than they did for their own organisations (20%).
- Of those organisations that responded only 16% had suffered a fraud in the previous two years.
- The higher the turnover of an organisation, the more likely an organisation was to suffer fraud.
- The largest number of frauds reported occurred in organisations in the \$1,000,000 to \$9,999,999 turnover group with 186 individual fraud cases reported.
- The largest number of frauds reported occurred in organisations with 51 – 100 employees with 150 individual fraud cases reported.
- The largest number of frauds reported occurred in organisations with no volunteers with 234 individual fraud cases reported.
- Cash theft and kickbacks/bribery were the most common types of fraud perpetrated.
- In not-for-profit organisations, the typical fraudster is a male/female in his/her forties and is a paid non-accounting employee.
- Only 8% of fraud was committed by unpaid volunteers.
- The average duration of the fraud was only 14 months.
- The average value of the largest frauds in not-for-profit organisations was \$45,527.

- Internal controls are the most successful method of discovering fraud, with 36% of fraud discovered this way.
- The most common motivator for fraud was financial problems and pressures.
- The majority of respondents did not report fraudulent matters to the Police.
- 20% of organisations did not terminate the employment of the person who committed the fraud.
- 88% of respondents see fraud prevention as important.
- The key factors organisations say as being required to reduce the risk of fraud were strong internal controls (74%) and an ethical organisational culture (74%).

A not-for-profit organisation should consider the results of this survey in perspective to their own organisation and determine where they are most at risk of fraud. While the results of the survey are positive overall, there is still room for improvement. A not-for-profit organisation should not become complacent, vigilance will always be imperative.





# 1. The not-for-profit sector

As the challenges facing not-for-profit organisations continue to evolve, achieving an exceptional contribution to a field of excellence requires clear strategic direction and efficiency across all business units. Traditionally the sector is categorised into twelve key international sub-sectors and organisations are defined as independent, self-governing, non-compulsory institutions, without commercial or monetary purposes.

Key findings include:

- 93% of respondents registered their main operations as based in Australia and New Zealand;
- 4% of respondents hired no employees and 20% of respondents hired more than 100 employees;
- 38% of respondents had no volunteers and no respondents had more than 100 volunteers;
- 44% of respondents had a turnover in the bracket of \$1,000,000 - \$9,999,999; and
- The major source of funding was grants and government funding, with 49% of respondents.

## 1.1 Size of the not-for-profit sector

The diversity of the not-for-profit sector in Australia is significant. There are more than 700,000 not-for-profit organisations with 380,000 incorporated organisations.<sup>1</sup> The combined income of the sector is approximately \$34 billion, with more than 600,000 people being employed by the sector. In 2006, the sector was supported by 713 million hours of voluntary work, by 34% of the adult population in Australia.<sup>2</sup>

The New Zealand experience is equally as diverse. In 2004, non-profit institutions contributed 2.6% to the country's gross domestic product (GDP) and the sector had 97,000 registered not-for-profit organisations with the largest proportion from the culture, sports and recreational category. Interestingly, the sector relies on the support of 1,011,600 volunteers contributing more than 270 million hours of unpaid labour and only 10% of the sector employs paid staff with the total staff in the sector being 105,340.<sup>3</sup>

## 1.2 Diversity of the sector

The scope of the sector is substantial with a mix of organisations ranging from small community groups to large multinational organisations, including business and professional associations, unions, environmental agencies, education, social services and health. However, in principle, the following key issues are consistent across not-for-profit organisations, as they are independent, value-led and reinvest revenue for the purpose of achieving their key strategy or objective.

## 1.3 Survey participants

The BDO *not-for-profit fraud survey* 2008 provides a benchmark for not-for-profit organisations by revealing the perception and level of fraud in the sector, examines specific incidences of fraud and outlines what the sector is doing to prevent fraud occurring. It also provides a comparison to the results of the BDO *not-for-profit fraud survey* 2006. The survey compares fraud across 384 of Australia's and New Zealand's leading not-for-profit organisations and provides the sector with an insightful comparison of fraud risk areas and fraud risk management strategies. The survey was conducted confidentially and no individual information was released to survey participants.

## 1.4 Geographic location of survey participants

The survey respondents were located throughout Australasia with 93% of respondents having their main operations based in Australia and New Zealand. 7% of respondents had their main operations based internationally. Charts 1.1 and 1.2 highlight the percentage of respondents by region.

LOCATION	%
New South Wales & Australian Capital Territory	25
Queensland	20
Victoria	16
Tasmania	5
South Australia	4
Western Australia	4
Northern Territory	3
New Zealand	16
International	7

Chart 1.2: Location of respondents

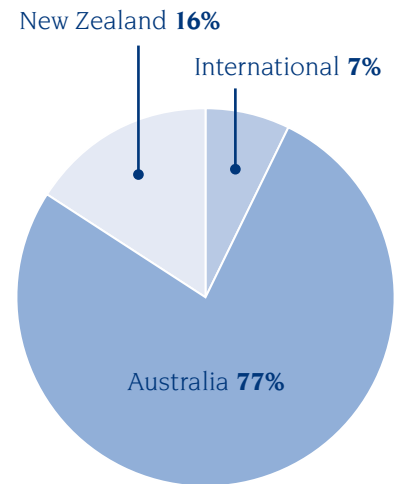


Chart 1.1: Location of respondents

## 1.5 Categories of not-for-profit organisations

Internationally, the not-for-profit sector is classified into twelve main categories. These categories are applied throughout the survey to group respondents into consistent industry categories. Responses were distributed across all twelve categories, with the key categories being health, social services, business & professional associations, unions, and education & research.

CATEGORY	%
Health	18
Social services	16
Business & professional associations, unions	14
Education & research	13
Culture & recreation	11
Development & housing	5
Environment	2
Law, advocacy & politics	2
Philanthropic intermediaries & voluntarism promotion	2
Religion	2
International	1
Not elsewhere classified	13
No response	1

Chart 1.3: Category of respondents

For a detailed list of the types of organisations that form part of each category, please refer to Appendix A.

## 1.6 Employees & volunteers

With strong economic growth over the past decade, employment strategies have continued to be a critical component of growth for not-for-profit organisations. The industry has a strong reliance on both paid employees and volunteers across the full spectrum of positions, from boards through to basic administrative roles.

In Australia, 34% of the adult population, being approximately 5.4 million people, volunteer with not-for-profit organisations, with the highest participation levels in Queensland and the ACT.<sup>4</sup> This represents an increase of over one million people from 2000, when an estimated 4.4 million adults volunteered within the sector.<sup>5</sup> Typically volunteers tend to support sport and physical recreation as the primary source of volunteering, followed by education and training and community welfare. Within these sources of volunteering, 48% of volunteers were involved in fundraising and 31% in preparing and serving food.<sup>6</sup> New Zealand follows a similar pattern, with just over one million volunteers contributing more than 270 million hours of unpaid labour. Only 10% of the sector employs paid staff with the total staff in the sector being 105,340.<sup>7</sup>

Charts 1.4 and 1.5 highlight the employee and volunteer profiles provided by respondents. Half of the respondents have less than 20 paid employees. The majority of respondents have less than 20 volunteers, with 38% having none.

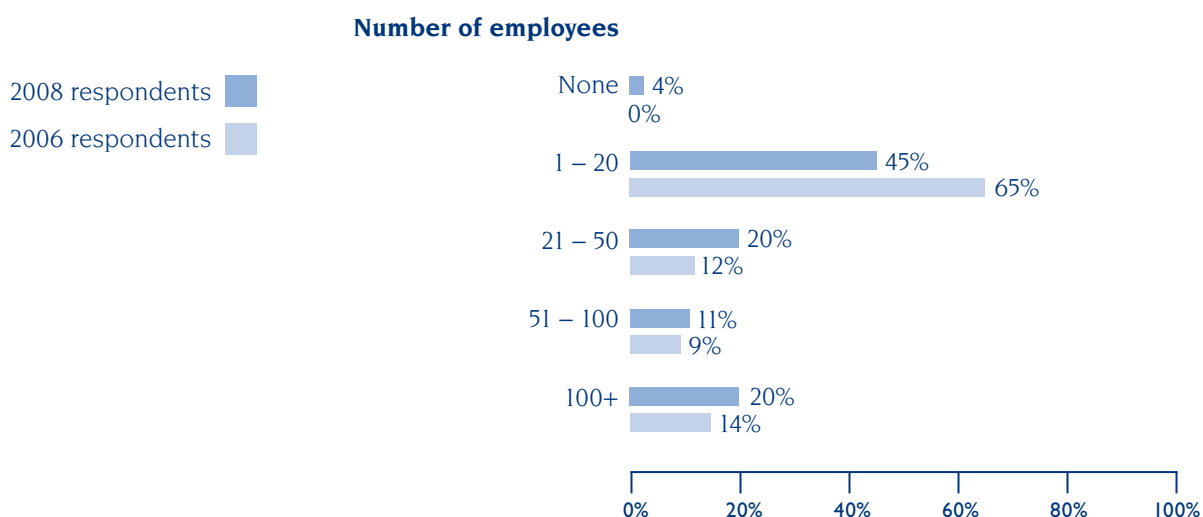


Chart 1.4: Comparative: Employee numbers for respondents

### Number of volunteers

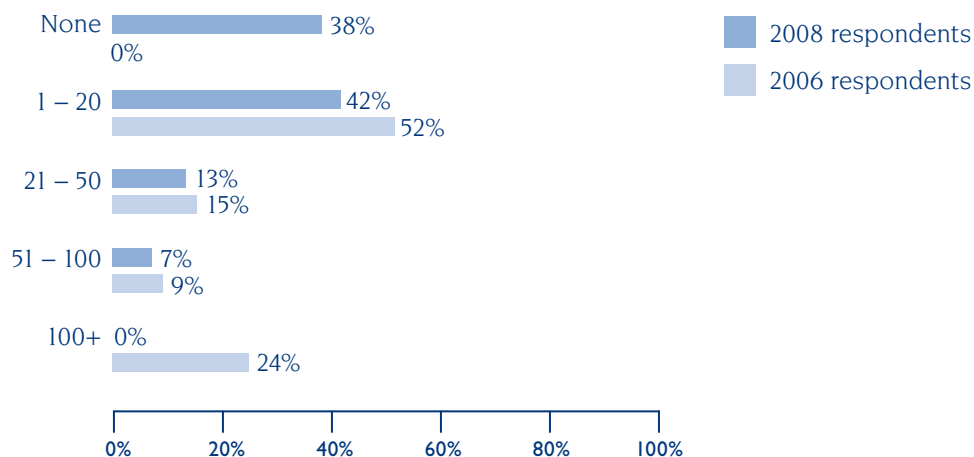


Chart 1.5: Comparative: Volunteer numbers for respondents

## The value of volunteers

The responsibility level for volunteers is often the topic of heated debate in the not-for-profit sector and typically centres around issues of trust and accountability. The BDO *not-for-profit fraud survey 2008* explores comparatively the levels of fraud within not-for-profits by both employees and volunteers.

“I am occasionally told by some organisational managers that volunteers should not be given tasks that involve access to privileged information nor be involved in financial management or cash handling. These same managers however are loathe to state openly that it is because volunteers generally cannot be trusted to behave in the same way as paid employees. They are loathe to say it because there is absolutely no evidence that volunteers are less trustworthy.”

Characteristically some managers assume it is easier to employ paid staff in responsible positions as employment ensures more accountability, responsibility and transparency in their actions. That is an entirely illogical assumption and clearly identified as inaccurate by this survey. Surely people who need an income are the people who are more likely to seek other sources of money if they become desperate. Volunteers on the other hand are people who are in a position financially to offer their time for free.

I also understand that many volunteers undertake their roles to gain experience to help with job seeking but behaving dishonestly is one way to ensure they never get a job!

So good managers of staff, both paid and unpaid, should ensure that their organisational risk management policies and practices are such that there are the appropriate checks and balances in place to reduce opportunities for fraudulent practice. In addition staff should be thoroughly trained in organisational risk management procedures. At the same time organisations should have a policy on whistle blower protection so that any fraud reported ensures that the reporter is protected from any adverse fallout. Unfortunately the whistle blower is often a volunteer who finds their services being dispensed of because they discovered and reported activities such as pilfering or inappropriate practice. Good risk management protects all aspects of the organisation's operations and volunteers can play a vital part in those operations. We need to view them with gratitude and not suspicion.

*Lynne Dalton,  
Chief Executive Officer  
The Centre for Volunteering, NSW*

[www.volunteering.com.au](http://www.volunteering.com.au)

## 1.7 Operations

The strategic direction of not-for-profit organisations tends to be centred around the core vision and values that drive the mission of the organisation. As such, funding and effective management of operational expenditure is an essential element of business growth.

Turnover is a key indicator of operational size. Chart 1.6 demonstrates the turnover of the respondents. Interestingly, the respondents of the survey displayed a range of turnovers with more than half stating a turnover exceeding \$1 million which is a significant change to 2006, as demonstrated below.

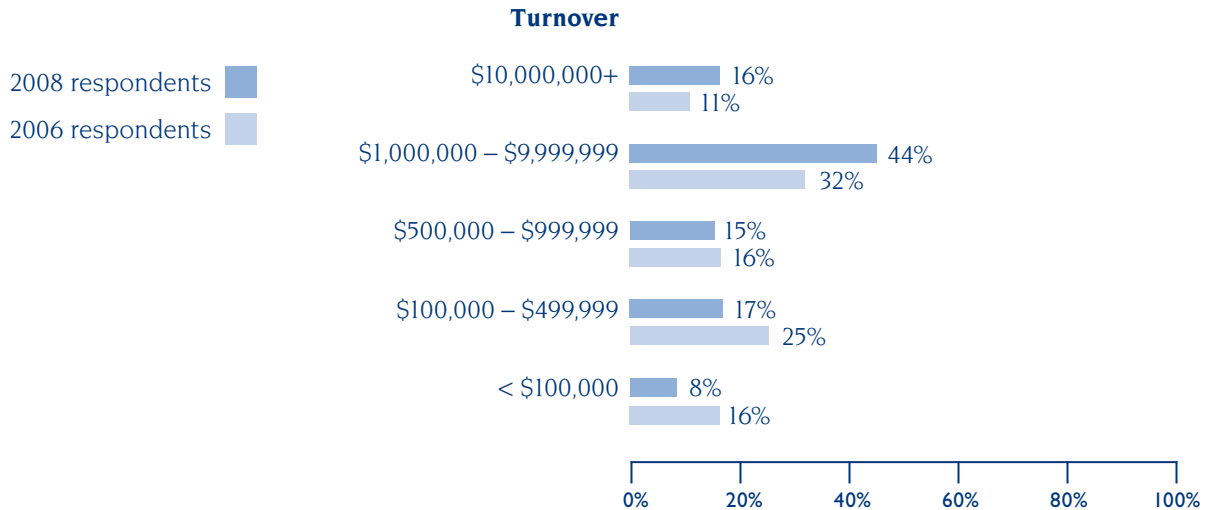


Chart 1.6: Comparative: Respondents grouped by turnover

Understanding the key sources of funding for the respondents was an important component of the survey as the data can be used to correlate the types of fraud experienced by the sector with the sources of funding. The major sources of funding for survey respondents varied considerably. In many cases, respondents had more than one major source of income. The following chart presents the average proportion of funding received by respondents from each source. Grants, government funding and business operations represent the primary sources of funding, which is a similar result as in the BDO *not-for-profit fraud survey 2006*.

SOURCE OF FUNDING	%
Grants/Government Funding	49%
Business Operations	16%
Membership Fees	11%
Donations	6%
Fundraising	6%
Subscriptions	3%
Sponsorship	3%
Bequests	1%
Other	5%

Chart 1.7: Major funding sources for respondents

Section three explores the correlation between the type of funding received and the types of fraud occurring in not-for-profit organisations. Risk management strategies are an integral part of protecting and maintaining funding for the future, as different risks are associated with different sources of funds being received. For example, cash donations are at risk of theft by the collector or other people handling the cash, while donations paid directly into a bank account are more likely to be defrauded by cheque or online payment fraud methods. Bequests of items such as jewellery can simply be stolen before they are even sold for the benefit of the organisation.

The impact of fraud on the sector can be significant, particularly if publicised by the media. If an organisation receives negative publicity as a result of a fraud, income from sources such as donations and fundraising may decrease. Governance is increasingly being included in grant and bequest documents to ensure superior stewardship of resources.

The results of this survey can help organisations in determining risk management strategies for the future.





## 2. How fraud is perceived by the sector

The perception of fraud, both within the not-for-profit sector and within individual organisations, is a significant factor in planning strategies for the sector as it impacts on all aspects of a not-for-profit organisations core business. To consider how fraud is perceived by the sector, respondents were asked to consider the risk of fraud from an organisation and sector perspective and whether they see fraud as being an issue for their organisation or the sector in the future.

Key findings include:

- 20% of respondents see fraud as a problem for their organisation;
- 66% of respondents see fraud as a problem for the sector;
- Fraud was perceived as the greatest risk to individual organisations in the Philanthropic intermediaries & voluntarism promotion category (43%);
- Fraud was perceived as having the greatest risk to the sector by organisations in the Religion category (86%);
- 70% of respondents who perceived fraud to be a problem for their organisation see fraud as an inherent problem for all organisations; and
- Only 14% of respondents expect fraud to become a greater problem for the sector in the future.

The way fraud is perceived will play a major role in how organisations approach not only fraud prevention methods but also how they choose to deal with fraud if it occurs.

How an organisation perceives fraud can have a significant effect on that organisation's susceptibility to fraud. Understanding why fraud is perceived differently by organisations within the sector will help to clarify the potential risk fraud poses for both organisations and the sector as a whole.

Fraud perception was addressed in the survey from two perspectives: as an individual organisation and as a sector. Organisations have control over in-house operations and can take steps to reduce the likelihood of fraud internally. This section compares the industry benchmark of fraud prevention and control with individual responses by organisations and explores the expected trend of fraud for the future.

## 2.1 Organisation versus sector perception

As with the results of the BDO *not-for-profit fraud survey 2006*, there remains a distinct difference in how individual organisations perceive fraud as a risk for themselves and how they perceive it as a risk for the sector.

### 2.1.1 Individual organisation perception

The BDO *not-for-profit fraud survey 2006* found that respondents felt fraud was not a problem for individual organisations, based on a belief that employees and volunteers were trustworthy. Comparatively the new data demonstrates a shift away from this school of thought. Gradually organisations are recognising that they have been 'too trusting'. Following on from this, organisations are also now recognising the risk a fraud could have to the brand and reputation of the organisation.

Results of the survey show only 20% of respondents see fraud as an organisational problem in comparison to 16% in 2006.

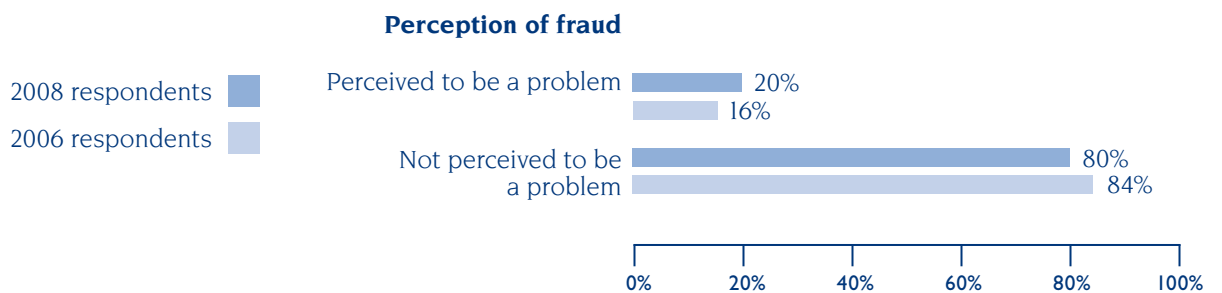


Chart 2.1: Comparative: Perception of fraud in individual organisations

As with the BDO *not-for-profit fraud survey 2006*, there was a higher incidence of organisations that perceived fraud as a risk, as turnover grew. This is an understandable response considering that as the turnover of an organisation becomes larger, there will generally be more employees and/or volunteers, a greater number of transactions and more opportunities for fraud to occur.

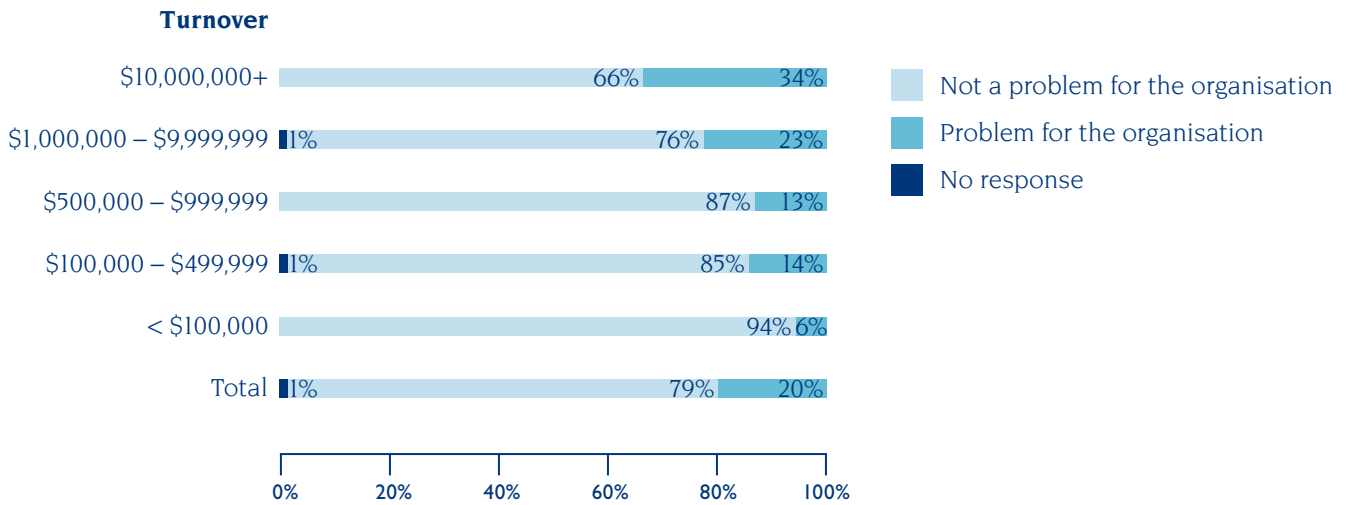


Chart 2.2: Perceptions of respondents: Fraud as a problem for the organisation by turnover grouping

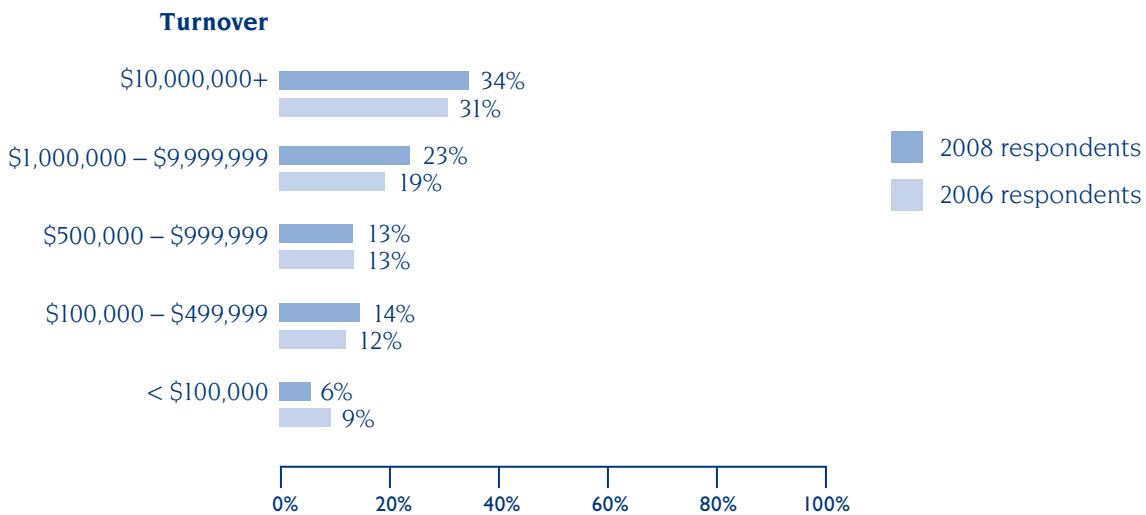


Chart 2.3: Comparative: Fraud perceived to be a problem

Fraud perceptions were also examined across industry groupings from an individual organisation's perspective and as a sector. In the philanthropic intermediaries & voluntarism promotion group (compared with the environment group in the BDO *not-for-profit fraud survey 2006*), respondents saw fraud as a greater risk for the organisation than respondents in other groups.

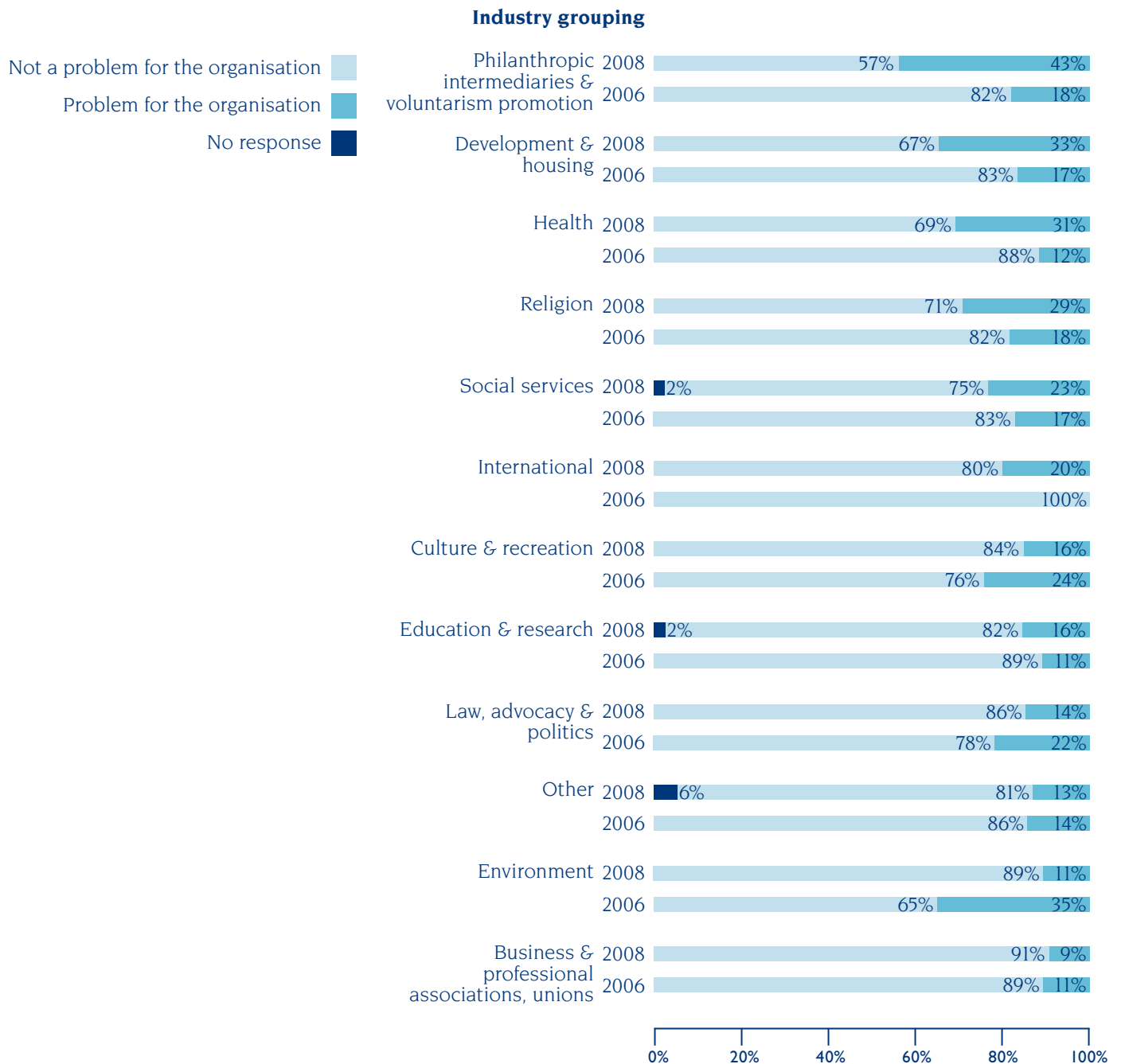


Chart 2.4: Comparative: Perceptions of respondents, fraud as a problem for their organisation by industry grouping

The main reason organisations perceived fraud to be a problem for individual entities was the belief that fraud was an inherent problem in any organisation (70%).

REASONS FOR PERCEPTIONS THAT FRAUD IS A PROBLEM TO THE ORGANISATION	PROPORTION OF RESPONDENTS
It is an inherent problem in any organisation	70%
Poor internal controls	25%
Poor segregation of duties	23%
No mechanism to report fraud	14%
Rely on volunteers	12%
Poor culture in the organisation	8%
Other	21%

*Chart 2.5: Reason for perception of fraud in organisations  
(Respondents could select more than one response for this question)*

Other reasons given include:

- There are not enough staff and resources to oversee potential problem areas;
- Inconsistency in applying existing controls;
- Reputational risk is a key issue;
- Historically the organisation has been too trusting; and
- Lack of respect for the Christian ethic of respect for the rights of other people. We are generating a culture of greed and selfishness.

### 2.1.2 Sector perception

The majority of respondents (66%) agreed that fraud is a problem for the sector, regardless of organisation turnover. This again highlights the discrepancy in perception of fraud risk at both a micro and macro level for the sector.

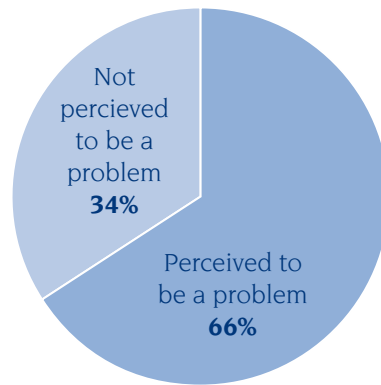


Chart 2.6: Perception of fraud in the sector

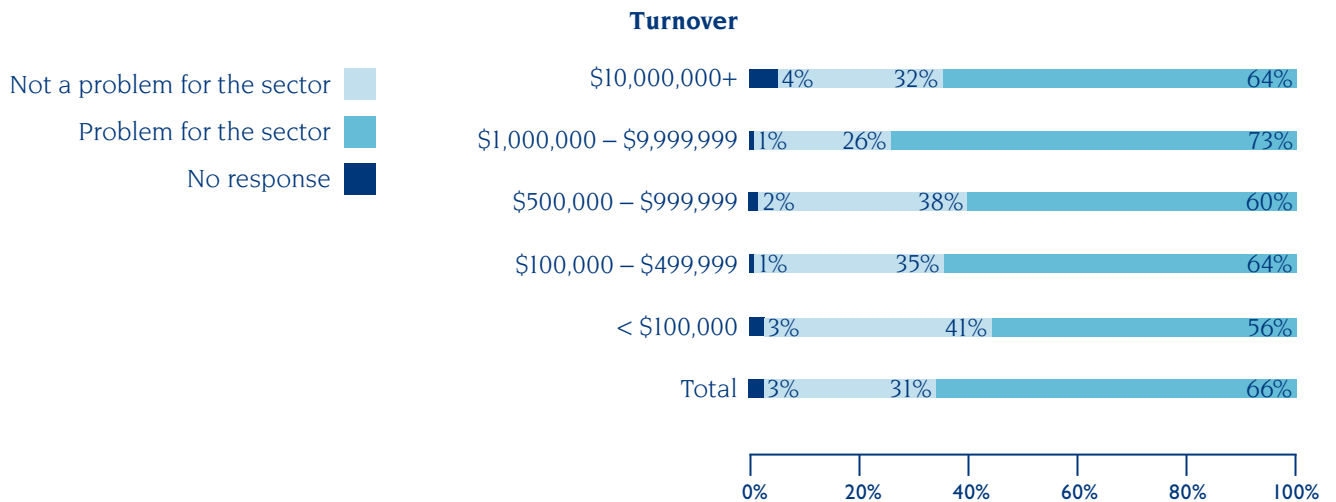


Chart 2.7: Perceptions of respondents: Fraud as a problem for the not-for-profit sector by turnover grouping

In the religion, international and environment groups, respondents saw fraud as a greater risk for the sector. This is a similar result to the BDO *not-for-profit fraud survey 2006*, where respondents from the environment and religion groupings assessed this risk highly.

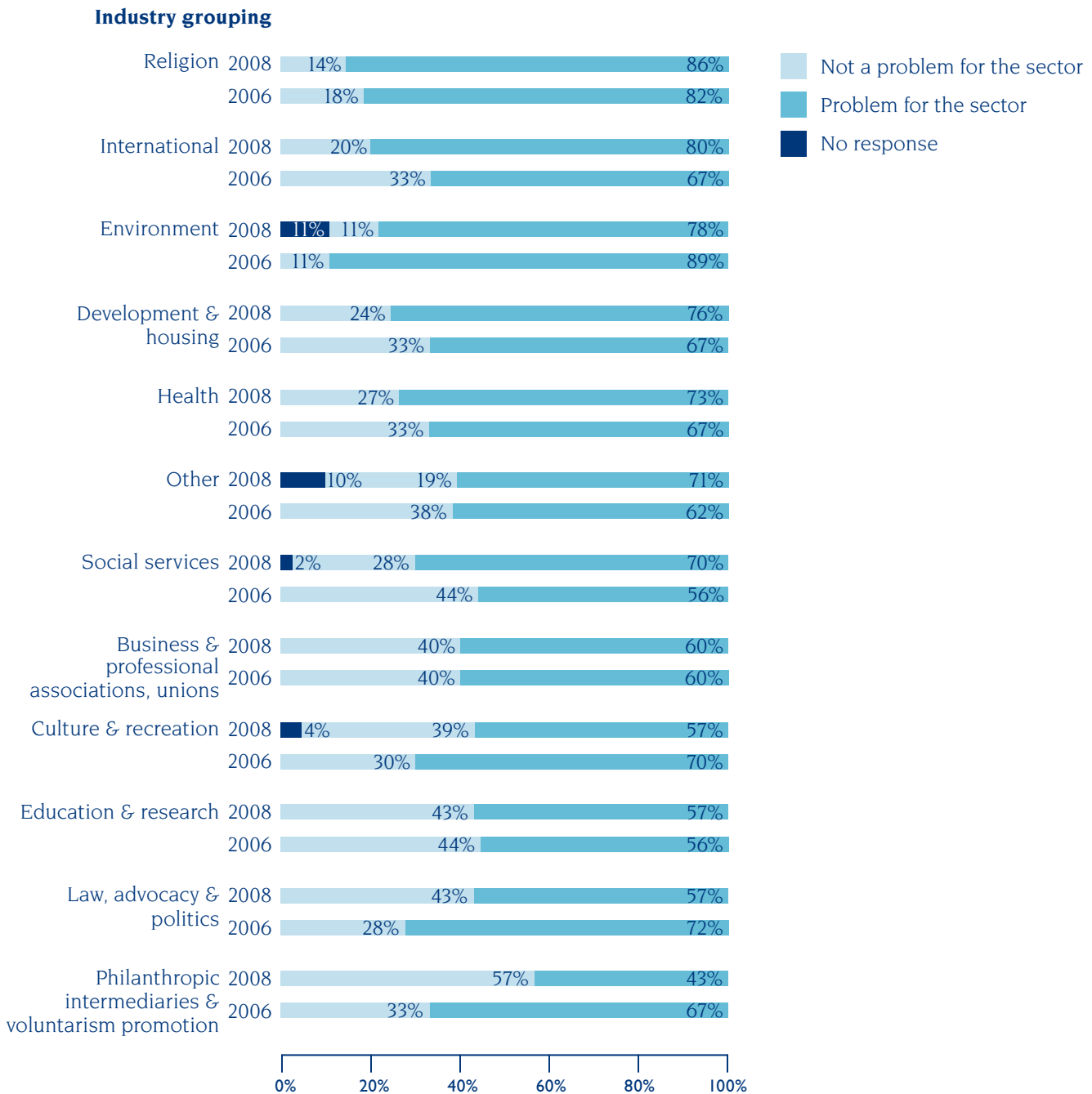


Chart 2.8: Comparative: Perceptions of respondents, fraud as a problem for the not-for-profit sector by industry grouping

Of those organisations perceiving fraud as a problem for the not-for-profit sector but not for their entities, the majority place reliance on strict internal controls, organisational culture, trustworthy staff and external audits. However, organisations in this position may not appreciate the inherent limitations of external audits. Other reasons provided included sound corporate governance, the use of external book-keeping services and no cash handling as all transactions are electronic.

REASONS FOR PERCEPTIONS THAT FRAUD IS A SECTOR PROBLEM, BUT NOT ONE FOR THE ORGANISATION	PROPORTION OF RESPONDENTS
Strict internal controls	76%
Good organisational culture	64%
Trustworthy staff	61%
No fraud discovered by external audit	61%
Effective internal audit	41%
Fraud control policy implemented	20%

*Chart 2.9: Reasons for perceptions of fraud as a sector but not organisational problem (Respondents could select more than one response for this question)*

In our opinion, an organisation must be careful not to ‘rest on their laurels’. Once an organisation has experienced a fraud and corrective actions have been taken (such as improvements in internal controls), those improvements need to be regularly reviewed and updated to counter any future risks of fraud.

## Brand integrity for not-for-profit organisations

The creation and establishment of a brand or a trade mark is becoming an increasingly important economic contributor to the income raising activities for many not-for-profit organisations. The not-for-profit’s reputation and brand promise provides a distinction from competitors and can help consumers to identify products and bring integrity and recognition to fund raising activities and other programs provided by the not-for-profit. Brand recognition within the not-for-profit sector is usually strongly associated with the core vision and values of the organisation and consequently, fraud within and external to an organisation can strongly influence the perception of the brand within the marketplace.

The impact of fraud on a brand can be significant and is measured both tangibly and intangibly. Fraud in the not-for-profit sector can significantly impact the dollars raised by an organisation and subsequently reduce the

instrumental change the brand (and competitor brands) can make to the community.

As such, the protection of intellectual property is a critical consideration for the not-for-profit sector. For organisations, the brand and the promise associated with the brand must be protected with all of the legal vigour of a commercial entity. It is unfortunately not uncommon for the unscrupulous to attempt to pass off their product by fraudulently misusing an established brand or by using a brand that is similar in design or style to confuse the innocent consumer. For the sector as a whole, it is important to reduce the tolerance of fraud as it’s impact across the sector can be significant. Not-for-profit organisations should be conscious of the economic value and benefits attributable to their brands and introduce protocols to ensure their brands are protected.

**Brian Richards**  
 Partner, Tax Advice & Consulting  
 BDO Kendalls

## 2.2 What does the future hold?

The perception of fraud now will affect how organisations deal with fraud prevention and detection methods in the future.

Respondents were asked whether they expect fraud to become a greater problem for their organisations in the future. Only 14% of respondents expect fraud to become a greater problem in the future. These perceptions do not seem to be related to the turnover of the organisation. The result demonstrates either potential uncertainty or complacency about how fraud might manifest itself in the future. A similar overall result was found in the BDO *not-for-profit fraud survey 2006*; however responses did appear to be related to organisational turnover with larger organisations assessing this risk at a higher level.

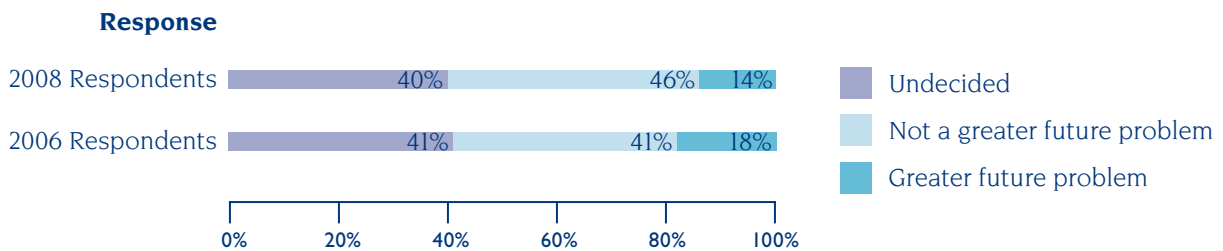


Chart 2.10: Comparative: Perceptions of fraud to be a greater problem in the future

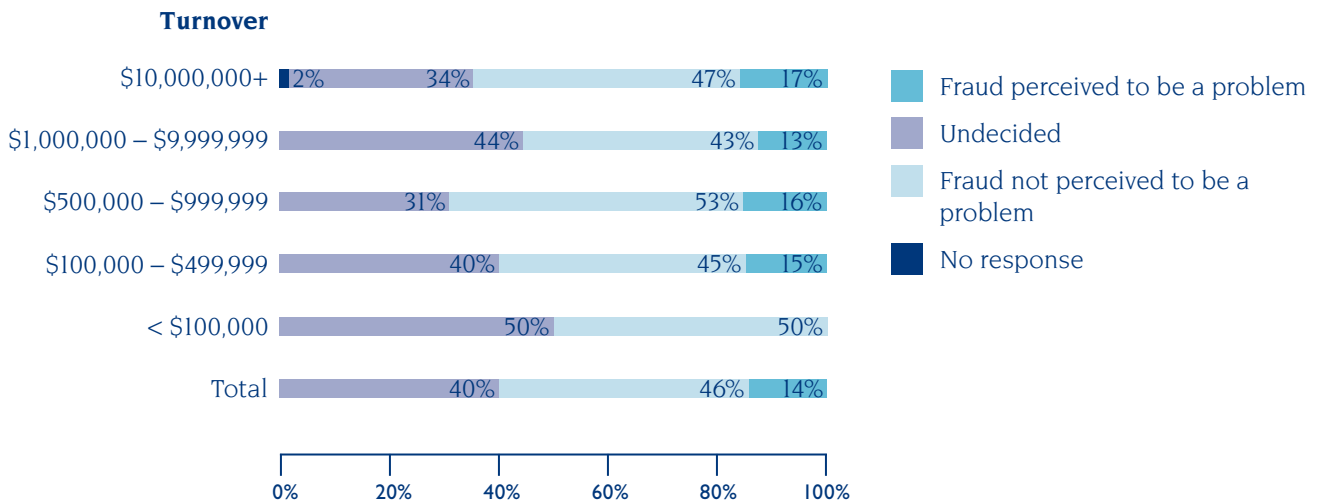


Chart 2.11: Perceptions of fraud to be a greater problem in the future by turnover grouping

When the organisational categorisation of respondents is considered, the response of 'undecided' varies significantly from 86% from the religion category down to 29% from the philanthropic intermediaries & voluntarism promotion and the law, advocacy & politics category. Fraud is perceived the greatest future problem for the development & housing category, and the least for law, advocacy & politics. Based on the number of organisations that responded 'undecided' as to the risk of fraud to the sector in the future, this may indicate a 'wait

and see' attitude within the sector. It may also be an indication that no clear patterns of fraud have emerged for organisations and they are unsure how fraud will manifest itself in the future. It is important that such an attitude does not lead to a relaxation of controls and ultimately an increase in the level of fraud in the future.

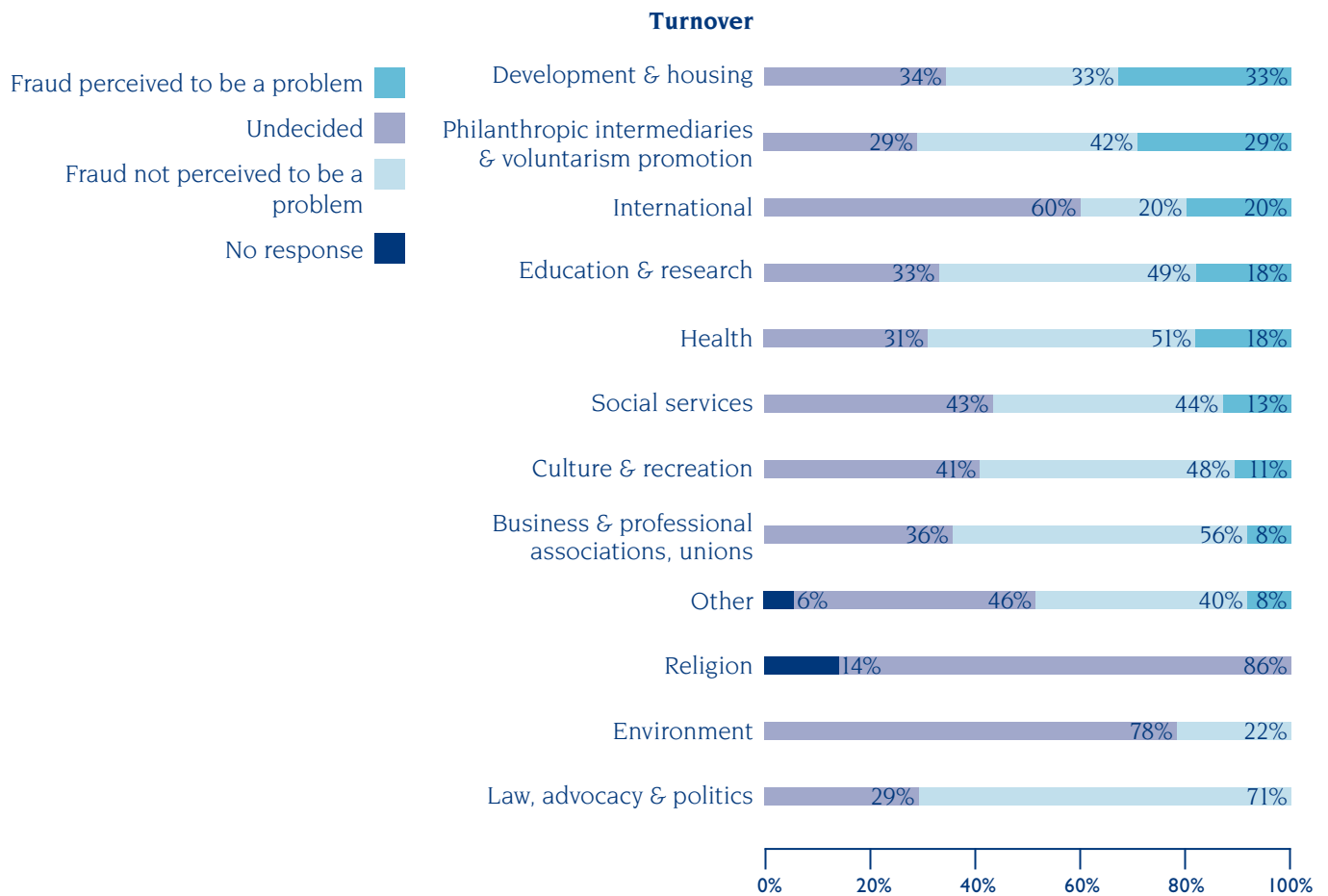


Chart 2.12: Perceptions of fraud to be a greater problem in the future by industry grouping

These statistics indicate a general concern about fraud and the impact of fraud in the sector, which correlates with the results from the BDO *not-for-profit fraud survey 2006*. Some of the reasons given by respondents for their concern about fraud in the future include:

- the skills shortage is leading us to employ people we once would not have employed. We are increasingly identifying staff who are in financial crisis and the temptation with our vulnerable client group is higher;
- more funds mean greater temptation;
- there will be greater scrutiny by funding bodies; and
- as we grow so does the opportunity for systems to fail and get lost.

## 2.3 Considerations

No not-for-profit organisation is exempt from the possibility of fraud. If anything, the potential for an organisation to have limited resources, staffing and their volunteer structure can create an environment where fraud can readily be committed.

Demonstrated further in the chapter on fraud prevention, it is apparent that not-for-profit organisations believe the current risk management strategies are enough to prevent and detect fraud. Strong prevention and detection processes such as appropriate internal controls are needed in all organisations. By having these processes in place, the number of frauds occurring is potentially reduced and when fraud does occur it is detected faster than if these processes were not implemented. The perception that fraud is not a problem for some organisations may therefore not be because fraud simply does not occur; it may be because they believe they have implemented prevention and detection processes.

Organisations must not let their guard down. If not-for-profit organisations do not perceive fraud to be a problem in the future or are undecided about the issue, it may result in these organisations relaxing some of the controls they currently have in place to prevent and detect fraud. If this was to occur, the not-for-profit sector could see an increase in fraud in the future. Organisations should not reduce their fraud prevention and detection measures, even if they do not perceive fraud to be a problem in the future. Doing so would provide perpetrators with a greater opportunity to commit fraud and a greater chance of the fraud not being detected.

## 2.4 A final word from our respondents

It is important to understand why respondents perceive fraud in the ways set out above. The following comments provided by respondents shed some light on this:

“There are limitations to internal control procedures due to staff numbers in administration. Cash handling is the most susceptible to fraud but again there are limitations to control procedures due to staff numbers.”

“Small not-for-profits cannot afford sophisticated and ongoing administrative controls.”

“While we are confident that fraud is not an issue at present, the larger our organisation grows the more important it is for us to develop robust measures, especially in ‘satellite’ centres.”

“Fraud is always potentially a problem for any organisation. Having good governance and policies in place can assist in decreasing the potential.”

“Having recently experienced fraud by an employee, we are now aware of the risks and we are improving systems to address this.”



# 3

## 3. Fraud in the not-for-profit sector

No industry sector is immune to fraud. While some may have better preventative and detection controls in place, reducing the incidence of fraud, this does not remove the threat or intent of fraud being carried out in these organisations.

Key findings include:

- 16% of respondents have suffered a fraud in the past two years;
- 61 organisations experienced 338 frauds in the past two years, representing an average fraud rate of 5.54 per organisation;
- A total of \$4,874,750 of fraud was suffered by these organisations, with an average value of \$14,422 per fraud;
- Fraud amongst respondents increases as turnover increases;
- The presence of volunteers among the workforce of not-for-profit organisations does not appear to increase the likelihood of fraud;
- 43% of organisations in the philanthropic intermediaries and voluntarism promotion category suffered fraud; and
- The largest number of frauds was experienced in the health industry category with 16 organisations reporting 216 cases of fraud.

While these figures may seem high, they are in fact, very positive for the not-for-profit sector. The incidence of fraud has actually declined from the 2006 survey where 19% of respondents indicated that they had suffered a fraud.

Regardless of whether your organisation has suffered a fraud, there are lessons we can all take away from the results of this survey.

This section looks at the incidence of fraud, taking into consideration the overall number of respondents, their turnover, employee numbers and industry category.

As the BDO *not-for-profit fraud survey 2006* was the first survey of its type for the sector, we are now able to benchmark our latest findings to identify trends or patterns in the not-for-profit sector. Overall, in comparison to perceived risk for the sector, the number of respondents who have experienced fraud in their organisations over the past two years has declined, which is positive for the sector.

A core part of the methodology of this survey is to examine the perceptions of the sector versus the reality by identifying correlations between an organisation's perception of fraud and the level of fraud suffered. If, for example, an organisation believes there is no fraud occurring in the sector, they may not implement the relevant controls and procedures and as a result suffer a fraud. Whereas, organisations that believe fraud is present, have the correct controls and either rarely suffer fraud, or the value of those suffered is minimal due to quick identification. This hypothesis will be examined below.

Understanding the value and the type of fraud occurring in the not-for-profit sector enables organisations to be better prepared and understand where they may be at risk. Regardless of whether your organisation has suffered a fraud, there are lessons we can all take away from the results of this survey.

### 3.1 What fraud has occurred?

Only 16% of the survey respondents had suffered a fraud in the past two years in comparison to the BDO *not-for-profit fraud survey 2006*, where 19% of respondents had suffered fraud in the prior two years. This is an impressive result and even more so when compared with survey results from large organisations in the public and private sector in which 47% of respondents reported some instance of fraud.<sup>1</sup> The results of the BDO *not-for-profit fraud survey 2006* and the current survey suggest that this sector consistently has a lower fraud incidence than larger organisations.

More specifically, 61 organisations experienced 338 frauds in the past two years, representing an average fraud rate of 5.54 per organisation. The highest total value of frauds was suffered in the '≥ \$10,000,000' turnover grouping (the larger organisations) and the highest average fraud value of \$31,937, was also experienced in this turnover grouping.

A total of \$4,874,750 of fraud was suffered by these organisations, with an average value of \$14,422 per fraud.

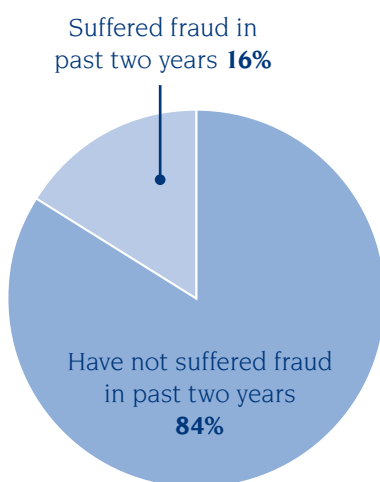


Chart 3.1: Organisations who have suffered fraud in the past two years

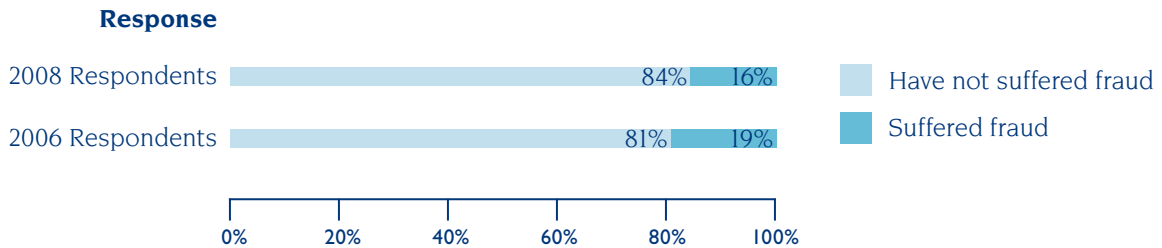


Chart 3.2: Comparative: Organisations who have suffered fraud

### 3.1.1 Turnover, staff & volunteers

#### Turnover

It is apparent from Chart 3.3 that the frequency of fraud amongst respondents increases as turnover increases. Larger organisations may be considered more likely to experience fraud because of the volume of financial transactions and magnitude of assets including cash, which present targets for fraud.

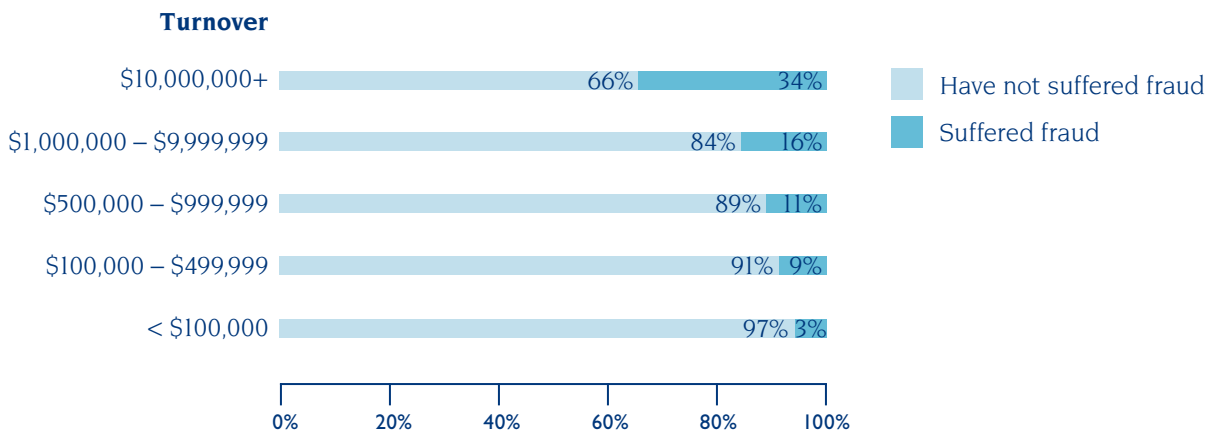


Chart 3.3: Organisations who have suffered fraud in the past two years according to turnover

TURNOVER	NUMBER OF RESPONDENTS WITH FRAUD	NUMBER OF FRAUDS	AVERAGE FRAUDS PER ORGANISATION	TOTAL VALUE OF FRAUDS	AVERAGE VALUE OF FRAUD
> \$10,000,000	20	70	3.50	\$2,235,600	\$31,937
\$1,000,00-\$9,999,999	27	186	6.89	\$2,113,650	\$11,364
\$500,00-\$999,999	6	24	4.00	\$254,500	\$10,604
\$100,000-\$499,999	6	57	9.50	\$265,000	\$4,649
< \$100,000	1	1	1.00	\$6,000	\$6,000
Total	60	338	5.63	\$4,874,750	\$14,422

Chart 3.4: Frauds experienced in the past two years according to turnover

Smaller not-for-profit organisations tend to feel that with minimal funds there is very little to defraud. However, as organisations grow in size, there is more potential for perpetrators to access cash and other items that can be defrauded. Perception of fraud here is the key. For organisations that have suffered fraud, recognition that fraud is a problem for the future will hopefully lead to implementation of appropriate controls to reduce the possibility of fraud recurring in the future. Conversely, those who have not suffered fraud may have a lower perception of fraud being a problem and hence may not be as stringent with their fraud controls.

### Staff & volunteers

The majority of frauds were suffered by larger organisations with more than 50 employees and with few, if any, volunteers. The presence of volunteers amongst the workforce of not-for-profit organisations does not appear to increase the likelihood of fraud.

EMPLOYEES	NUMBER OF FRAUDS	TOTAL VALUE	AVERAGE FRAUD VALUE
100+	74	\$2,505,300	\$33,855
51-100	150	\$1,415,000	\$9,433
21-50	46	\$647,950	\$14,086
1-20	68	\$306,500	\$4,507
Total	338	\$4,874,750	\$14,442

Chart 3.5: Frauds experienced in the past two years compared to number of employees

VOLUNTEERS	NUMBER OF FRAUDS	TOTAL VALUE	AVERAGE FRAUD VALUE
51-100	8	\$20,700	\$2,588
21-50	8	\$81,500	\$10,188
1-20	88	\$1,297,600	\$14,745
None	234	\$3,474,950	\$14,850
Total	338	\$4,874,750	\$14,422

Chart 3.6: Frauds experienced in the past two years compared to number of volunteers

In the BDO *not-for-profit fraud survey 2006*, it was found that more frauds were perpetrated by female employees than male employees. One possible explanation for this result may have been that there were more female than male employees in the organisations that had suffered fraud. In the current survey, there is no significant difference in the gender distribution of employees in organisations that had suffered fraud, compared with those that had not. Amongst respondents to this survey, approximately 66% of employees are female and 34% are male.

### Fraud experience

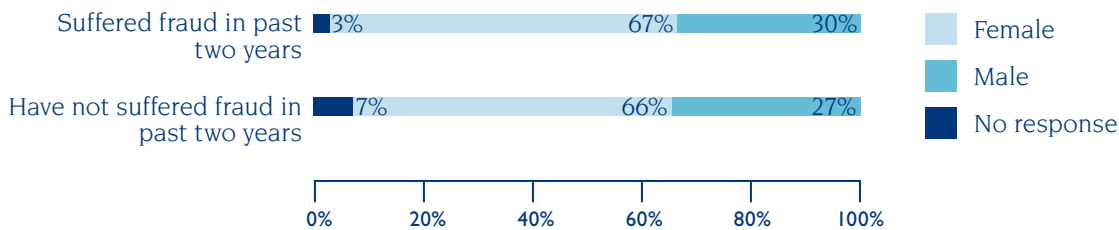


Chart 3.7: Employee gender distribution of organisations suffering fraud

A third of organisations that had experienced fraud believe some fraud is still undetected. Once an organisation's confidence in its staff is broken, it is common for the perceived risk of further fraud to rise. It is our experience that once this has happened organisations often embark on major fraud risk assessments and implement preventive measures such as strict controls.

### 3.1.2 Fraud suffered by category

It is interesting to compare an organisation's perception of fraud and the actual occurrence of fraud. While 43% of organisations in the philanthropic intermediaries & voluntarism promotion category responded that they perceived fraud to be a problem for their organisation, the same proportion had actually suffered a fraud in the past two years. This is not an unexpected result.

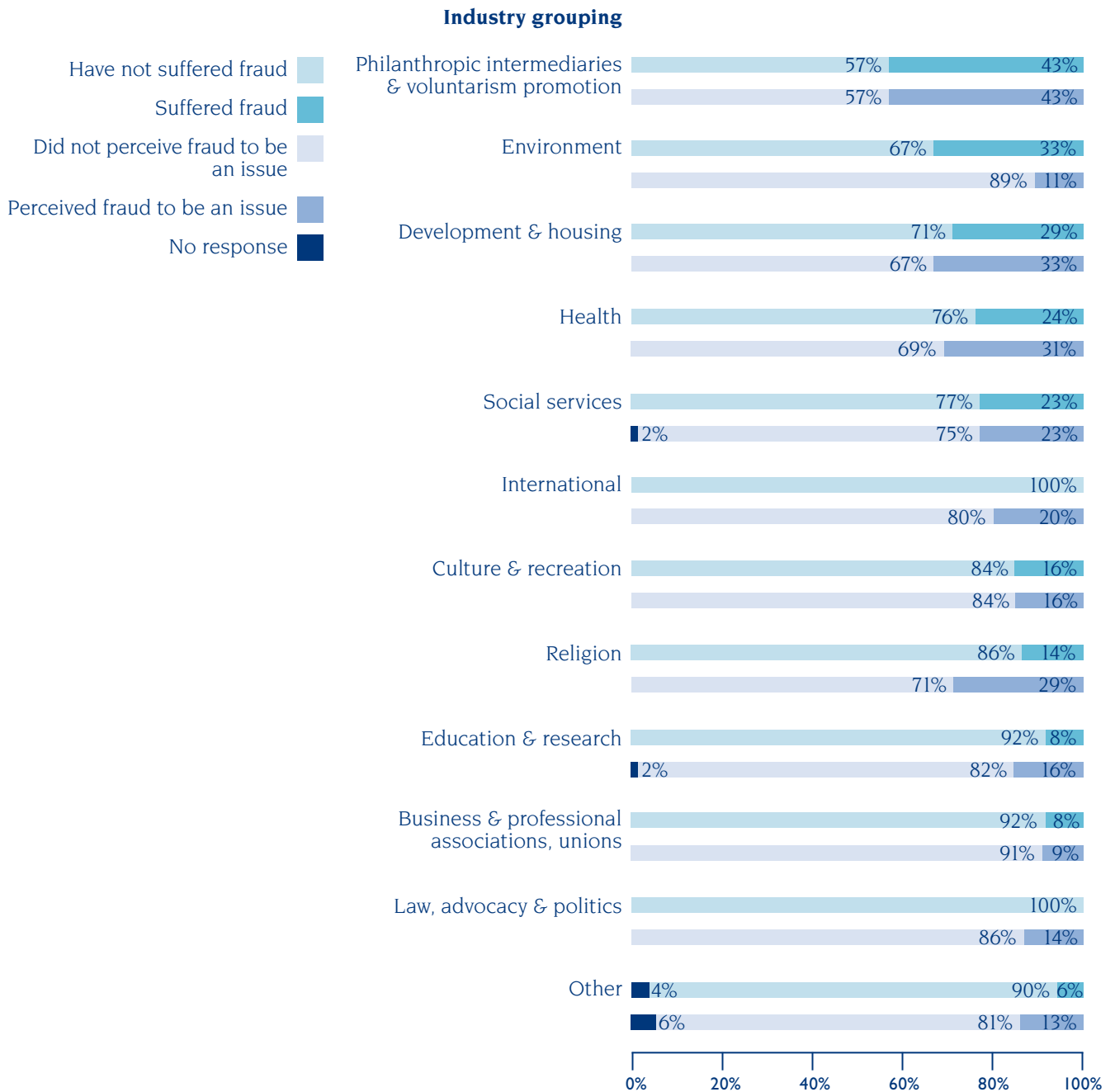


Chart 3.8: Perception of fraud vs instances of fraud

The largest number of frauds was experienced in the health industry category, with 16 organisations reporting 216 cases of fraud. This category also accounted for \$2,877,200 of the total value of all frauds (or 59% of the total). The highest average fraud value was \$100,000 experienced by one respondent in the religion category. No frauds were reported by respondents in the international and law, advocacy & politics categories.

A comparison of 2008 and 2006 statistics for organisations who suffered fraud in the previous two years according to industry groups is as follows:

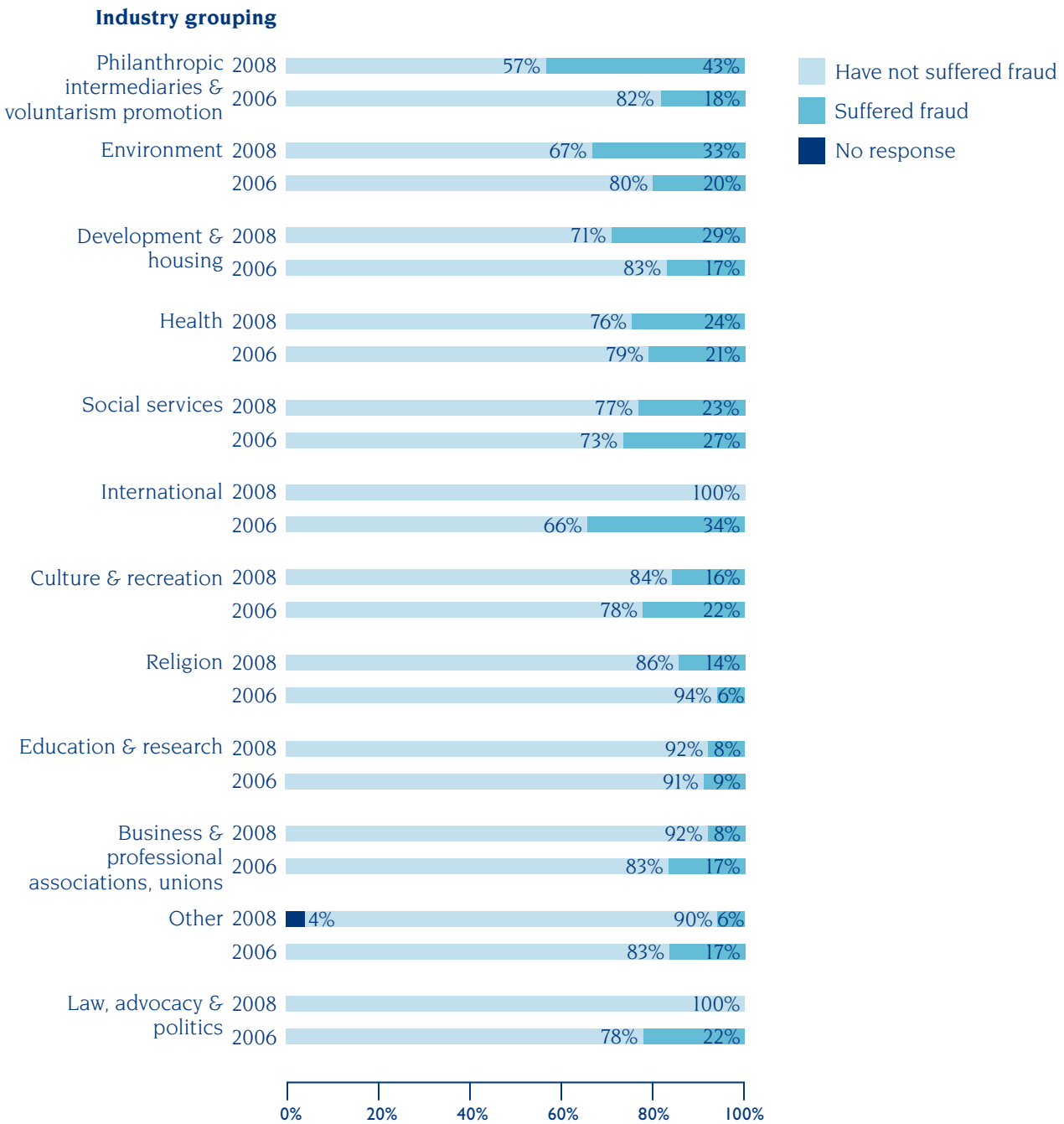


Chart 3.9: Comparative: Organisations who have suffered fraud according to industry category

INDUSTRY CATEGORY	NUMBER OF RESPONDENTS WITH FRAUD	NUMBER OF FRAUDS	AVERAGE FRAUDS PER ORGANISATION	TOTAL VALUE OF FRAUDS	AVERAGE VALUE OF FRAUD
Health	16	216	13.50	\$2,877,200	\$13,320
Education & research	4	5	1.25	\$462,000	\$92,400
Development & housing	6	12	2.00	\$447,700	\$37,308
Religion	1	4	4.00	\$400,000	\$100,000
Social services	14	20	1.43	\$332,100	\$16,605
Philanthropic intermediaries & voluntarism promotion	3	9	3.00	\$217,500	\$24,167
Culture & recreation	7	61	8.71	\$66,000	\$1,082
Business & professional associations, unions	4	5	1.25	\$55,000	\$11,000
Environment	3	4	1.33	\$12,250	\$3,063
Other	3	2	1	\$5,000	\$2,500
International	0	0	0	\$0	\$0
Law, advocacy & politics	0	0	0	\$0	\$0
Total	61	338	5.54	\$4,874,750	\$14,422

Chart 3.10: Frauds experienced in the past two years according to industry category

### 3.1.3 Fraud suffered by location

LOCATION	NUMBER OF FRAUDS	TOTAL VALUE OF FRAUDS	AVERAGE VALUE OF FRAUD
NSW/ACT	113	\$2,331,750	\$20,635
VIC	23	\$878,300	\$38,187
QLD	176	\$1,074,000	\$6,102
SA	4	Not provided	Not provided
WA	0	\$0	\$0
TAS	8	\$255,500	\$31,938
NT	3	\$50,200	\$16,733
NZ	7	\$238,000	\$34,000
No Response	4	\$47,000	\$11,750
Total	338	\$4,874,750	\$14,422

Chart 3.11: Frauds experienced in the past two years according to location

Chart 3.11 provides a detailed breakdown of the occurrence of fraud by number, total value and average value across Australia and New Zealand based on survey responses. The highest number of frauds reported by respondent organisations was in Queensland with 176 cases and the highest value of fraud reported was in New South Wales & Australian Capital Territory with \$2,331,750. Despite the highest number of the frauds occurring in Queensland, the average value of these frauds was low at \$6,102. In contrast Victoria had a low number of frauds (23) but the average value of fraud in Victoria was the highest at \$38,187. Tasmania and New Zealand despite having a low number of frauds, also had high average fraud values at \$31,938 and \$34,000 respectively. Most of the frauds occurred across New South Wales, Australian Capital Territory, Victoria, Queensland and New Zealand. This may be due to a large proportion of the respondents (77%) being from these four locations.

### 3.1.4 Fraud suffered by funding source

PRIMARY SOURCE OF FUNDING	NUMBER OF FRAUDS	TOTAL VALUE OF FRAUDS	AVERAGE VALUE OF FRAUD
Grants & Government funding	272	\$4,094,300	\$15,052
Business operations	15	\$429,450	\$28,630
Membership fees	7	\$67,000	\$9,571
Donations	3	\$12,000	\$4,000
Fund raising	19	\$52,000	\$2,737
Other	22	\$220,000	\$10,000
<b>Total</b>	<b>338</b>	<b>\$4,874,750</b>	<b>\$14,422</b>

Chart 3.12: Frauds experienced in the past two years according to primary funding source

Chart 3.12 provides a breakdown of fraud experienced by respondent organisations and its relationship to the organisation's primary source of funding. Grants and government funding was the funding source most closely linked to the largest number and value of frauds experienced over the past two years. Despite having the largest link to fraud, the average value of fraud related to funding from grants and government funding was \$15,052 which was considerably less than the average value of fraud linked to business operations which was \$28,630. This indicates that whilst the numbers of frauds from business operations are less frequent, they are of a greater magnitude.

PRIMARY SOURCE OF FUNDING	CASH THEFT	INVENTORY THEFT	ASSETS THEFT	CHEQUE FORGERY	ONLINE PAYMENTS FRAUD	EXPENSE ACCOUNT FRAUD	KICK-BACKS	CREDIT CARD FRAUD
Grants/govt funding	43%	6%	6%	6%	14%	3%	16%	6%
Business operations	60%		20%		20%			
Membership fees						20%	40%	40%
Donations				100%				
Fund raising	100%							
Other		100%						

Chart 3.13: Funding sources and links to types of fraud

Chart 3.13 indicates that the relationship between frauds reported by respondents and the organisation's primary source of funding differs significantly between funding sources.

### 3.2 Considerations

The size of the organisation will affect the amount of resources available to deal effectively with fraud across a range of operations. Typically, larger organisations have more resources to implement fraud risk management strategies, such as improved internal controls and internal audit functions.

As the majority of respondents do not see fraud as a major risk, it is possible that the initial indicators of fraud in an organisation may go unnoticed. By implementing controls and taking a proactive approach to fraud, organisations are better able to actively understand the types of fraud occurring internally and manage the consequences.

### 3.3 A final word from our respondents

The following examples show some of the issues facing respondents:

"We run opportunity shops, we believe there is a small level of theft of goods by volunteers but we have a bigger problem of theft by customers."

"The fraud was external not internal. Collectors posing as our collectors."

"Mail was stolen which resulted in fraudulent cheques being presented on the bank account."

"A contractor was unable to undertake their duties as per their CV."

# Putting fraud into perspective: ChildFund New Zealand

Losing to fraud is destructive to any business however to a not-for-profit organisation, fraud has a compounding effect. Fraud can tarnish the good work and reputation of the not-for-profit organisation and the impact of fraud can have a detrimental effect on the morale of staff and volunteers. In addition, it can hinder future fundraising and most importantly, it robs the beneficiaries of the outcomes they deserve.



*Sri Lankan children and their family's rain water harvesting tank, provided by ChildFund New Zealand*

ChildFund New Zealand is fortunate to not have experienced fraud. Thanks to robust systems and procedures as well as a dedicated team of professionals, we can ensure the children we support receive the funds and programmes our donors have kindly contributed.

The BDO *not-for-profit fraud survey* 2008 has identified that the average largest fraud committed in the sector amounts to over \$45,000. This is undoubtedly a significant amount and to put it into perspective, below are some tangible examples of how ChildFund New Zealand could use \$45,000 to help children around the world.

Building and equipping two early childhood centres in Zambia which will offer young children a positive start to their education by providing a protected environment for them to prepare for school;

Building 85 rain water harvesting tanks for children and their families in Sri Lanka which will allow access to clean water throughout the entire year;

Providing 2,750 dignity packs for girls in Mozambique so that young women can benefit from soap, sanitary supplies and other health and hygiene essentials; or

Providing 500 VIP (Ventilated Improved Pit) latrines for children in Liberia allowing them to access sanitary facilities specifically designed to minimise the spread of disease.

ChildFund New Zealand is one of New Zealand's most well respected child sponsorship charities. ChildFund New Zealand strives to make the world a safer, healthier and happier place for poor children. ChildFund never discriminates and works wherever the need is greatest, irrespective of religion, ethnicity, gender or national origin.

**Paul Brown**  
**National Director**  
**ChildFund New Zealand Ltd**

[www.childfund.org.nz](http://www.childfund.org.nz)



# 4

## 4. Specific fraud

Management of fraud within both the not-for-profit sector and organisations is only effective when the specifics of fraud are understood. In this section of the survey, respondents were asked to address the single largest fraud that has occurred in their organisation over the past two years.

Key findings include:

- The most common type of fraud reported by respondents was cash theft (33%);
- The typical fraudster is in his/her forties and is a paid non-accounting employee;
- Only 8% of fraud was committed by unpaid volunteers;
- Collusion was present in 25% of frauds reported with the typical colluder a female, over 50 years of age and a paid employee;
- The average value of the largest frauds in the not-for-profit sector is under \$50,000 (\$45,527);
- Of all reported cases of fraud, 54% of respondents believed they discovered the full extent of the fraud;
- Internal controls are the most successful method of discovering fraud, with 36% of frauds discovered this way;
- The average duration of a fraud was 14 months;
- Respondents indicated that financial problems and pressures are the most common motivator for fraud;
- The majority of respondents did not report fraudulent matters to the Police; and
- 20% of organisations did not terminate the employment of the person who committed the fraud.

By examining the specific fraud incidents of organisations we are able to provide the sector with information regarding what is the most likely type of fraud for their organisation size and type. Once again this enables organisations to remain on the front foot in the prevention of fraud.

There are some obvious correlations between the type of fraud and the category of the organisation that suffered the fraud. If an organisation handles a lot of cash then it is logical that cash theft would be the primary type of fraud occurring, in that the opportunity exists for those individuals who may be tempted.

While the information in this section can provide assistance to organisations in identifying key risk areas, it is also important not to categorise employees and volunteers and be blinded to other possibilities. The greatest weapon in the fight against fraud is prevention.

#### 4.1 What types of fraud were reported?

For an organisation to be in a position to proactively reduce the likelihood of fraud occurring, it is important to understand the types of frauds occurring in their organisation and the not-for-profit sector in general.

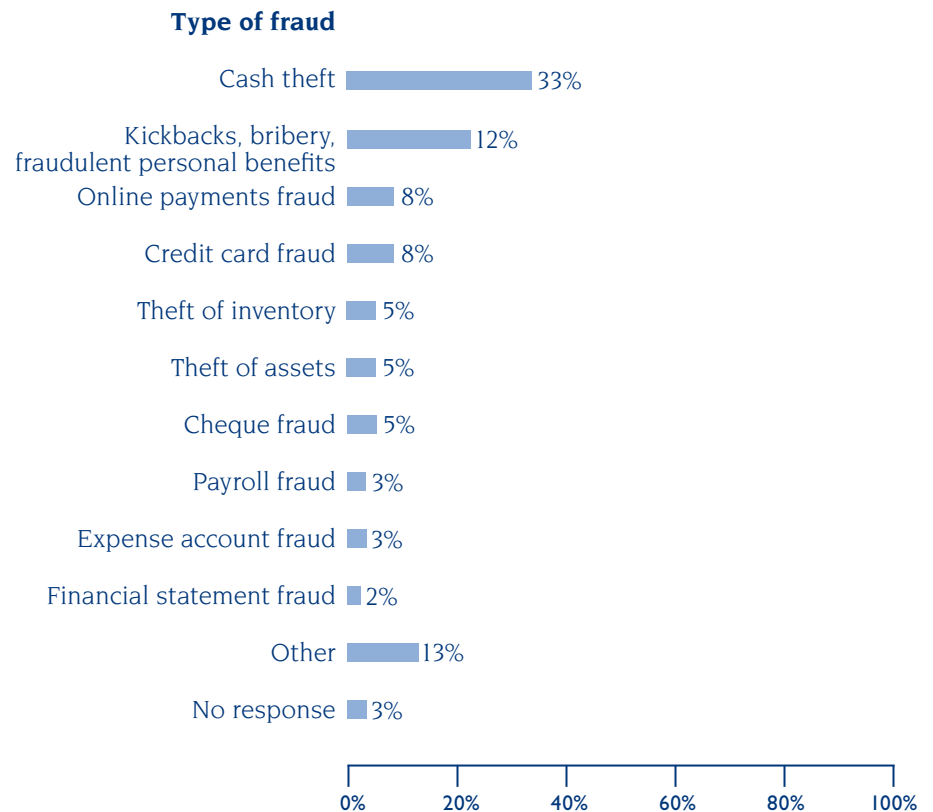


Chart 4.1: Types of fraud reported by number of frauds

The main category of fraud experienced by respondents was cash theft. Understandably this area is susceptible to theft as there are usually a number of handlers in any one transaction and various locations of collection, ranging from street stalls to sales and donations. Interestingly, it is not just an issue for the not-for-profit sector. Theft of cash was the second most frequent (12%) fraud type amongst large public and private organisations.<sup>1</sup>

Respondents experienced a wide diversity in the types of fraud. Typical in many other sectors and organisations is kickbacks/bribery/fraudulent personal benefits (12%), online payments fraud (8%) and credit card fraud (8%). With the uptake of online banking, it is interesting to note the change in cheque fraud from 10% in the BDO *not-for-profit fraud survey 2006* down to 5%, compared to an increase in online payments fraud from 3% in 2006 to 8%.

**Respondent comment:**  
 “She accepted the debt and is now repaying the money.”

The types of fraud can also be examined in relation to the industry category of the organisation. By doing so, a number of correlations can be observed between the type of organisation and the nature of their assets and the type of fraud perpetrated (*e.g.* kickbacks). It is important for each not-for-profit organisation to recognise the most common fraud methods encountered in their industry when implementing proactive fraud control policies.

INDUSTRY CATEGORY	CASH THEFT	INVENTORY THEFT	ASSETS THEFT	CHEQUE FORGERY	ONLINE PAYMENTS FRAUD	EXPENSE ACCOUNT FRAUD	KICKBACKS	CREDIT CARD FRAUD	PAYROLL FRAUD
Culture & recreation	29%				14%				14%
Education & research		25%		25%		25%	25%		
Health	38%						19%		
Social services	57%								
Environment			33%	33%				33%	
Development & housing	33%			17%				17%	
Philanthropic intermediaries & voluntarism promotion	33%		33%		33%				
Religion					100%				
Business & professional associations, unions							50%	50%	
Other	33%						11%		

Chart 4.2: Most common types of fraud per industry category by number of frauds

Examples of some of the frauds suffered by respondents include:

- “When the CEO was away, she used to leave signed blank cheques. The accountant was the second signatory. So he used these cheques to pay into his account. He wrote the cheques manually, so he could write his name on the actual cheque, but he entered other names on the MYOB system.”
- “Redirection of an elderly client’s mail to an employee’s address. It was only detected because the client’s family noticed a cessation of normally regular mail.”

## 4.2 Who committed the fraud?

One of the key findings from the survey relates to who is carrying out fraud in not-for-profit organisations. The survey results show a typical fraudster in the not-for-profit sector is different to those found in large organisations in the public and private sector:

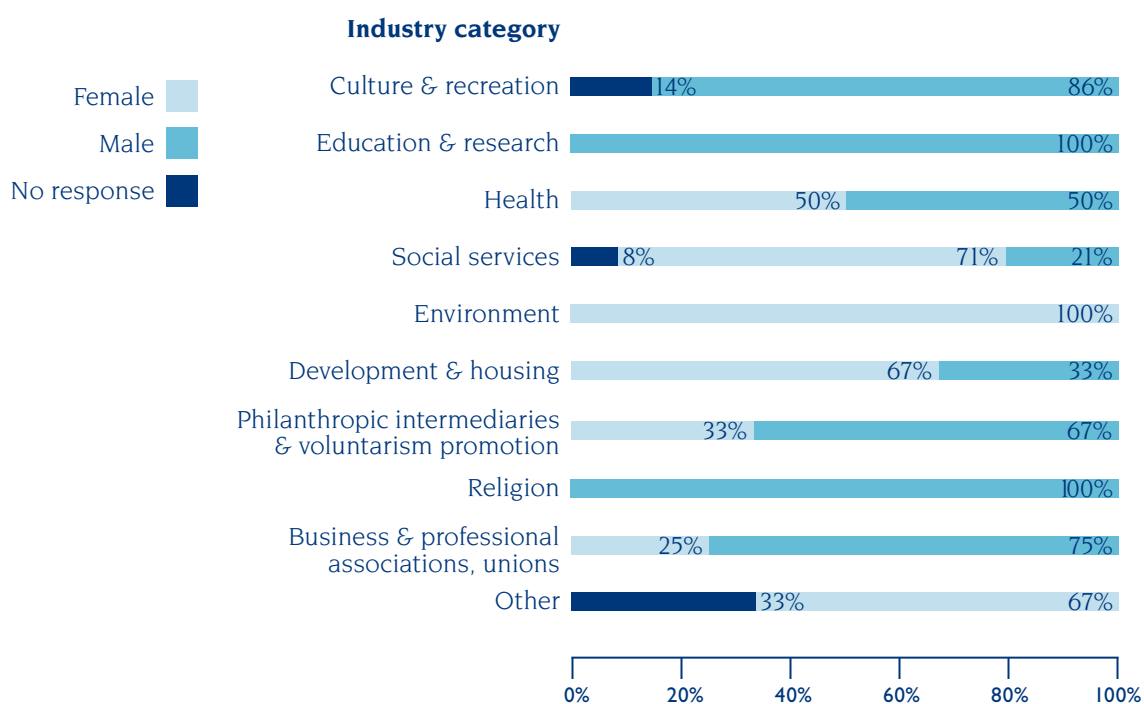


Chart 4.3: Gender of perpetrator by industry category

It is interesting to note that in the United Kingdom only 18% of all reported fraud is committed by females.<sup>2</sup> Chart 4.5 identifies that males are more likely to be fraudulent in cash theft (31%), kickbacks (21%) and online payments fraud (14%). In comparison, females are more likely to be fraudulent in cash theft (34%), credit card fraud (14%) and theft of assets (10%). Interestingly respondents identified significant 'other' types of fraud for both genders.

TYPE OF FRAUD	% OF FRAUDS BY MALES	% OF FRAUDS BY FEMALES
Cash theft	31%	34%
Kickbacks / bribery / fraudulent personal benefits	21%	4%
Online payments fraud	14%	4%
Credit card fraud	4%	14%
Theft of inventory	7%	3%
Theft of assets	0%	10%
Cheque fraud	7%	4%
Payroll fraud	3%	3%
Expense account fraud	3%	4%
Financial statement fraud	0%	3%
Other	10%	17%
Total	100%	100%

Chart 4.5: Type of fraud by gender of perpetrator

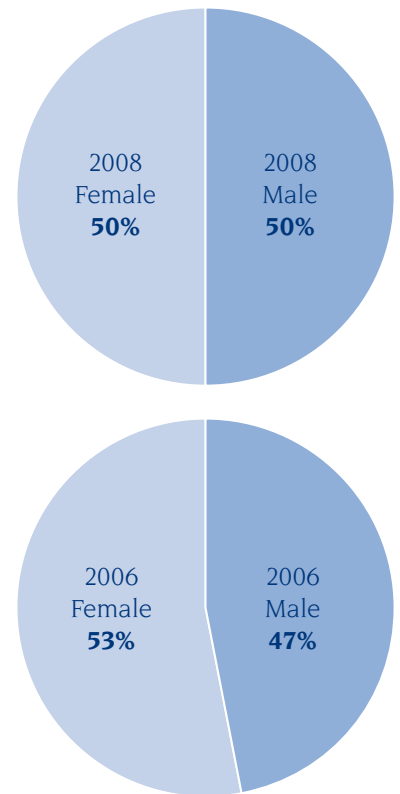


Chart 4.4: Comparative: Gender of perpetrator

Chart 4.6 examines the likelihood of fraud by males in comparison to females within a not-for-profit organisation. If an organisation is concerned that employees or volunteers are receiving kickbacks, it is significantly more likely that a male (86%) will be receiving them over a female (14%). In contrast, respondents noted that theft of assets is more likely to be female (100%) than male (0%).

TYPE OF FRAUD	MALE	FEMALE
Cash theft	47%	53%
Kickbacks / bribery / fraudulent personal benefits	86%	14%
Online payments fraud	80%	20%
Credit card fraud	20%	80%
Theft of inventory	67%	33%
Theft of assets	0%	100%
Cheque fraud	67%	33%
Payroll fraud	50%	50%
Expense account fraud	50%	50%
Financial statement fraud	0%	100%
Other	37%	63%

*Chart 4.6: Type of fraud by gender*

As indicated in Section 3, there is no significant difference in the gender distribution of employees in organisations that had suffered fraud, compared with those that had not. Amongst respondents to this survey, approximately 67% of employees are female. In total, an equal number of frauds were perpetrated by males and females. However, the split between male and female fraudsters differed significantly across industry categories.

Theft of cash is the most common fraud perpetrated by both male and female fraudsters.

### Age of fraudster

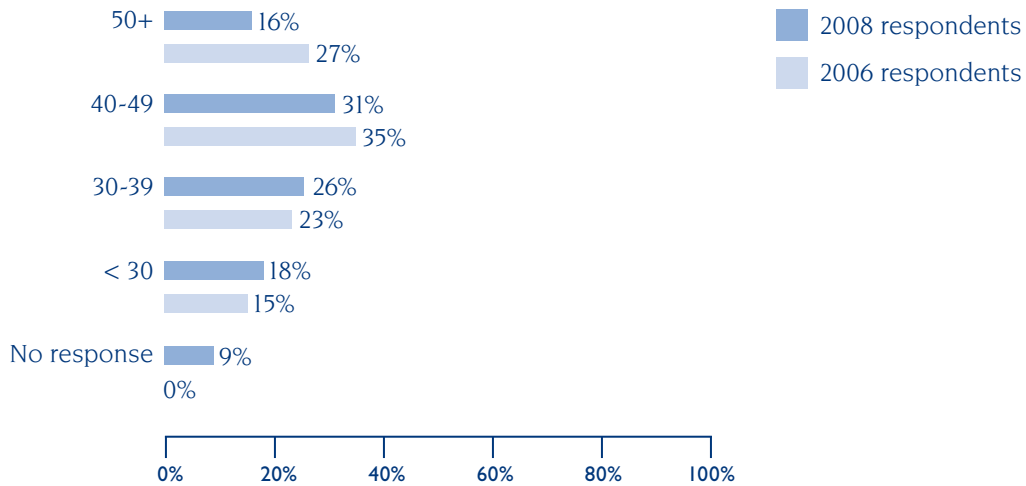


Chart 4.7: Comparative: Age of perpetrator

### Position of fraudster

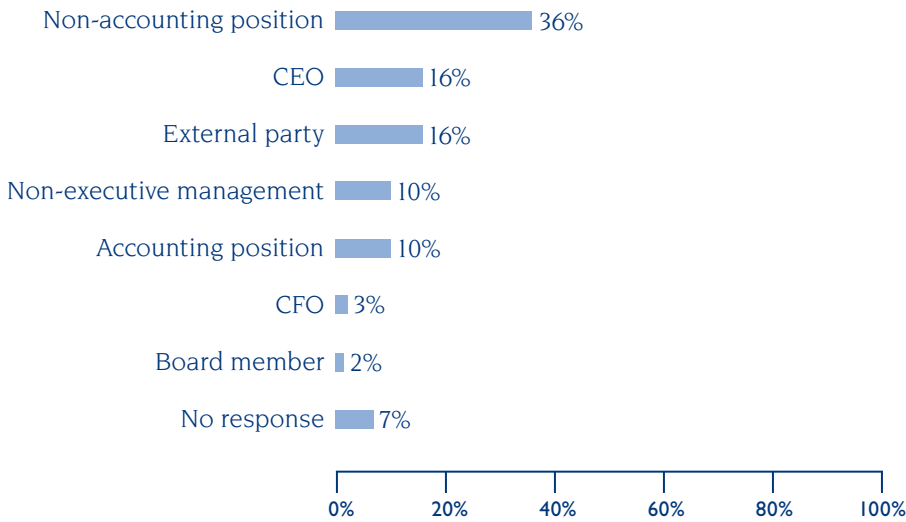


Chart 4.8: Position of perpetrator

In not-for-profit organisations the typical fraudster is in his/her forties and a paid non-accounting employee. This is a similar result to the BDO *not-for-profit fraud survey 2006*, which also found CEOs running in second place in the fraud stakes. An interesting result in this survey is the relatively high incidence of fraud committed by external parties.

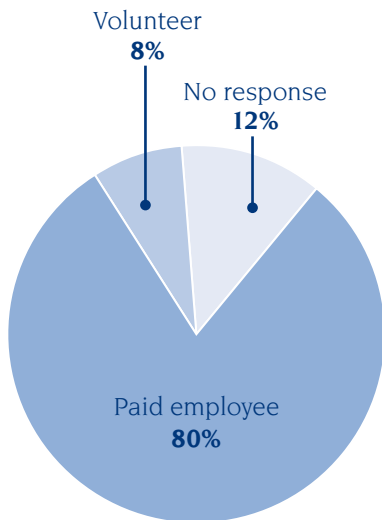


Chart 4.9: Employment status of perpetrator

It is also interesting to note that only 8% of fraud was committed by unpaid volunteers. Volunteers are a major component of the not-for-profit sector and many organisations could not operate without their support. This result should provide comfort to those organisations that do rely so heavily on volunteers, with a paid employee being ten times more likely to commit fraud than a volunteer. It should also be noted however, that volunteers may commit fraud that is difficult to detect (e.g. theft of cash at thrift shop).

### 4.3 Was collusion involved?

Collusion was present in 25% of frauds reported. If collusion was involved, the typical person involved in the collusion was a female, over 50 years of age and a paid employee.

It is often more difficult to detect fraud when collusion is involved. For example, if segregation of duties is an internal control used to minimise the risk of fraud and two employees collude, the control is no longer effective and fraud is more easily committed. Over a quarter of colluders were external parties (27%). Consider the example of an employee being provided with kickbacks from a supplier. The employee buys products solely from this supplier as a result of receiving the kickback even though the supplier's product is priced significantly higher than other suppliers.

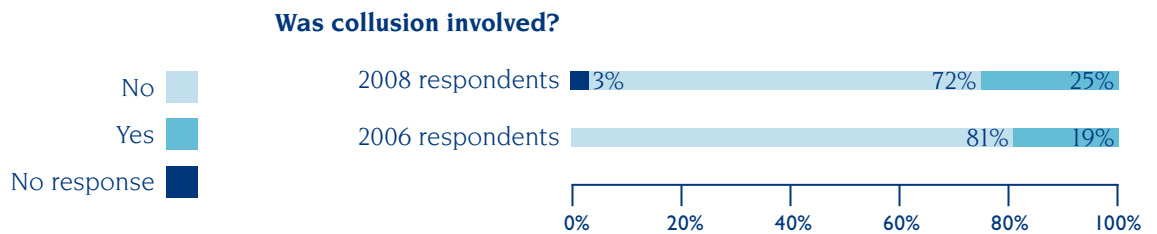


Chart 4.10: Comparative: Incidence of collusion

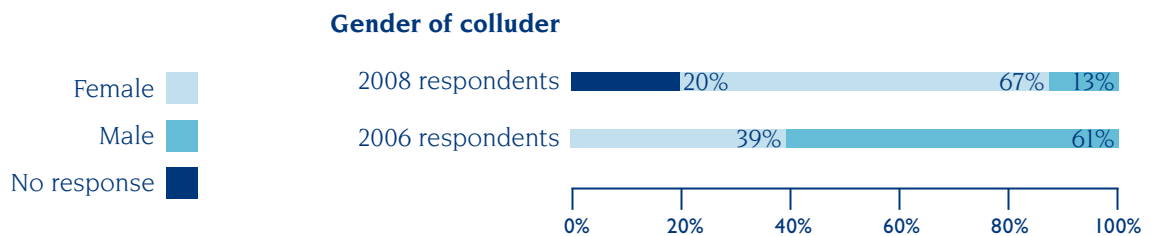


Chart 4.11: Comparative: Gender of colluder

**Age of colluder**

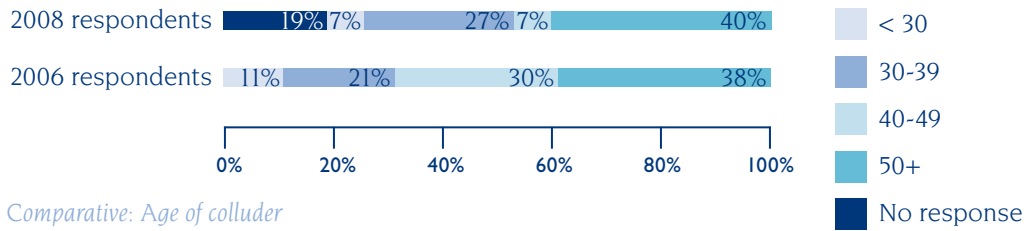


Chart 4.12: Comparative: Age of colluder

**Position of colluder**

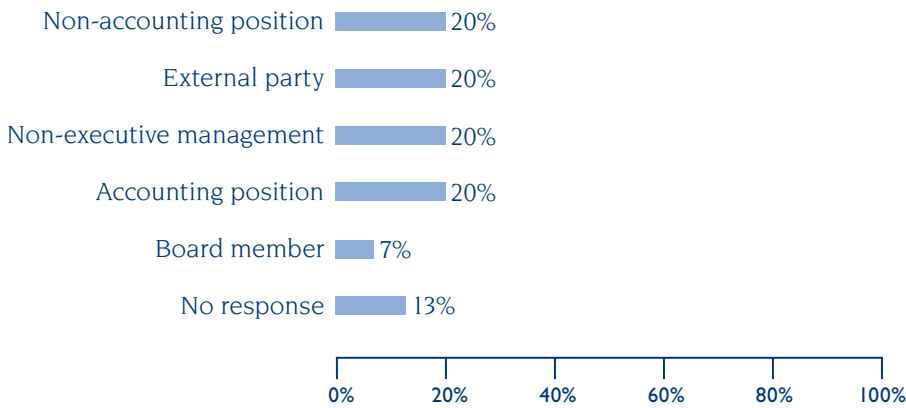


Chart 4.13: Position of colluder

**Employment status of colluder**

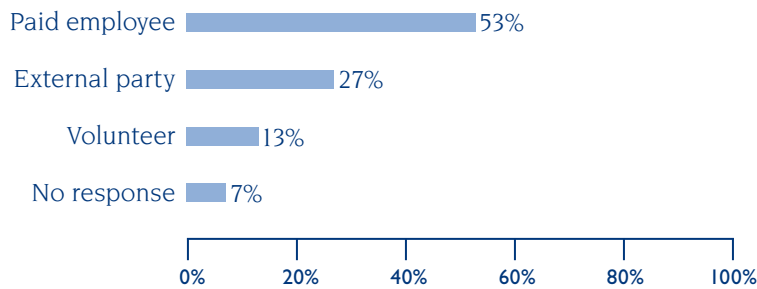


Chart 4.14: Employment status of colluder

The average of the largest fraud in a not-for-profit organisation was \$45,527.

#### 4.4 What was the value of the fraud?

The following results summarise the value of the largest frauds reported where respondents provided an estimate of the loss suffered. It is extremely encouraging to note that the average value of the largest reported frauds in the not-for-profit sector is under \$50,000 (\$45,527). This is compared to an average fraud of \$196,742 in large organisations in the public and private sector.<sup>3</sup> Of the reported cases of fraud, 54% of respondents believed they discovered the full extent of the fraud.

The reasons the value of frauds reported are significantly lower than for large organisations in the public and private sector include:

- Many not-for-profit organisations have insignificant amounts of assets or funds that can be defrauded *e.g.* 40% of respondents had a turnover of less than \$1,000,000 per year; and
- Fraud can be opportunistic. For example, the average value of the theft of assets was only \$867. Small assets are easily picked up and taken.

Organisations in the \$1 million to \$10 million turnover category accounted for 71% of the value of frauds reported and the highest average fraud value across turnover categories. As suggested earlier, it is reasonable to expect that larger organisations with greater assets are more likely to suffer fraud.

TURNOVER	NUMBER OF FRAUDS	TOTAL VALUE OF FRAUDS	AVERAGE VALUE OF FRAUD	% CONFIDENT FULL VALUE OF FRAUD DETECTED
\$1,000,000-\$9,999,999	26	\$1,695,650	\$65,217	56%
\$10,000,000+	17	\$549,250	\$32,309	60%
\$100,000-\$499,999	4	\$62,000	\$15,500	67%
\$500,000-\$999,999	4	\$54,500	\$13,625	33%
< \$100,000	1	\$6,000	\$6,000	0%
Total	52	\$2,367,400	\$45,527	54%

Chart 4.15: Value of largest fraud by turnover

Nearly half the frauds reported in terms of total value were perpetrated in the health category. The fraud with the highest average value occurred in the religion category.

INDUSTRY CATEGORY	NUMBER OF FRAUDS	TOTAL VALUE OF FRAUDS	AVERAGE VALUE OF FRAUD	% CONFIDENT FULL VALUE OF FRAUD DETECTED
Health	13	\$1,105,350	\$85,027	31%
Education & research	4	\$458,000	\$114,500	50%
Social services	13	\$277,750	\$21,365	50%
Religion	1	\$220,000	\$220,000	100%
Development & housing	6	\$167,550	\$27,925	83%
Culture & recreation	5	\$56,000	\$11,200	43%
Business & professional associations, unions	3	\$55,000	\$18,333	50%
Environment	3	\$12,250	\$4,083	100%
Philanthropic intermediaries & voluntarism promotion	3	\$10,500	\$3,500	100%
Other	1	\$5,000	\$5,000	67%
Total	52	\$2,367,400	\$45,527	54%

Chart 4.16: Value of largest fraud by industry category

Five online payment fraud incidents accounted for nearly half of the total value of frauds reported and the highest average value of \$219,700 across the types of fraud.

TYPE OF FRAUD	NUMBER OF FRAUDS	TOTAL VALUE OF FRAUDS	AVERAGE VALUE OF FRAUD
Online payments fraud	5	\$1,098,500	\$219,700
Cash theft	19	\$423,650	\$22,297
Cheque fraud	3	\$412,500	\$137,500
Financial statement fraud	1	\$200,000	\$200,000
Kickbacks / bribery / fraudulent personal benefits	5	\$59,000	\$11,800
Credit card fraud	5	\$42,500	\$8,500
Theft of inventory	3	\$35,500	\$11,833
Expense account fraud	2	\$12,100	\$6,050
Payroll fraud	1	\$5,000	\$5,000
Theft of assets	3	\$2,600	\$867
Other	5	\$76,050	\$15,210
Total	52	\$2,367,400	\$45,527

Chart 4.17: Value of largest fraud by type

Males perpetrated frauds with an average value of nearly three times the average value of those perpetrated by females.

GENDER OF PERPETRATOR	NUMBER OF FRAUDS	TOTAL VALUE OF FRAUDS	AVERAGE VALUE OF FRAUD
Male	24	\$1,708,000	\$71,167
Female	27	\$658,750	\$24,398
No response	1	\$650	\$650
Total	52	\$2,367,400	\$45,527

Chart 4.18: Value of largest fraud by gender of perpetrator

These statistics are consistent with figures from the United Kingdom where the survey of reported fraud found that women tended to be involved in frauds for smaller amounts.<sup>4</sup>

In terms of total value, nearly half the frauds were commissioned by accounting employees. Frauds by the chief financial officer had the highest average value.

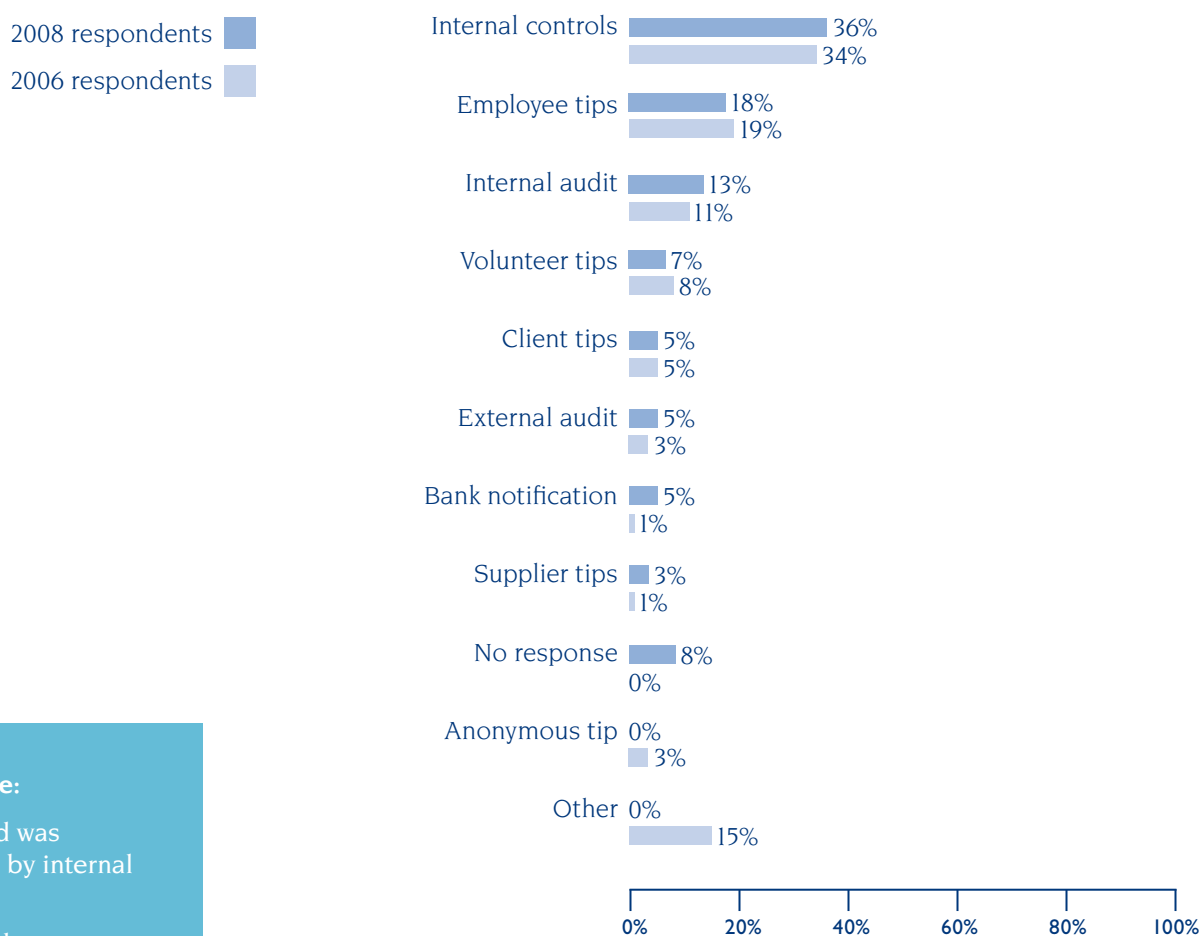
POSITION OF FRAUDSTER	NUMBER OF FRAUDS	TOTAL VALUE OF FRAUDS	AVERAGE VALUE OF FRAUD
Accounting position	6	\$1,065,500	\$177,583
CFO	2	\$402,000	\$201,000
Non-accounting position	20	\$279,200	\$13,960
Non-executive management	6	\$272,000	\$45,333
External party	8	\$258,050	\$32,256
CEO	8	\$89,000	\$11,125
Board member	1	\$1,000	\$1,000
No response	1	\$650	\$650
Total	52	\$2,367,400	\$45,527

Chart 4.19: Value of largest fraud by position of perpetrator

## 4.5 How was the fraud discovered?

Details of how frauds have been discovered help us identify some of the most effective ways for your organisation to remain proactive in fighting fraud.

### How fraud was discovered



#### Points to note:

- 36% of fraud was discovered by internal controls.
- 33% of fraud was discovered by tip-offs.
- 74% of fraud was discovered by internal methods.

Chart 4.20: Comparative: Methods of fraud discovery

Effective internal controls are the most successful method of discovering fraud, with 36% of frauds discovered this way. Tips from employees, volunteers and other parties, account for 33% of fraud discovered. Internal audits can also be an effective means of discovering fraud (13%).

## 4.6 When was the fraud discovered?

It is extremely encouraging that the average duration of the reported frauds was 14 months, thus reducing the potential value of the fraud significantly. The BDO *not-for-profit fraud survey* 2006 found that 58% of fraud was discovered within one year. This is a major factor contributing to the average fraud value being under \$50,000 as the longer fraud takes to be discovered, the larger the fraud becomes.

The average duration of fraud was 14 months.

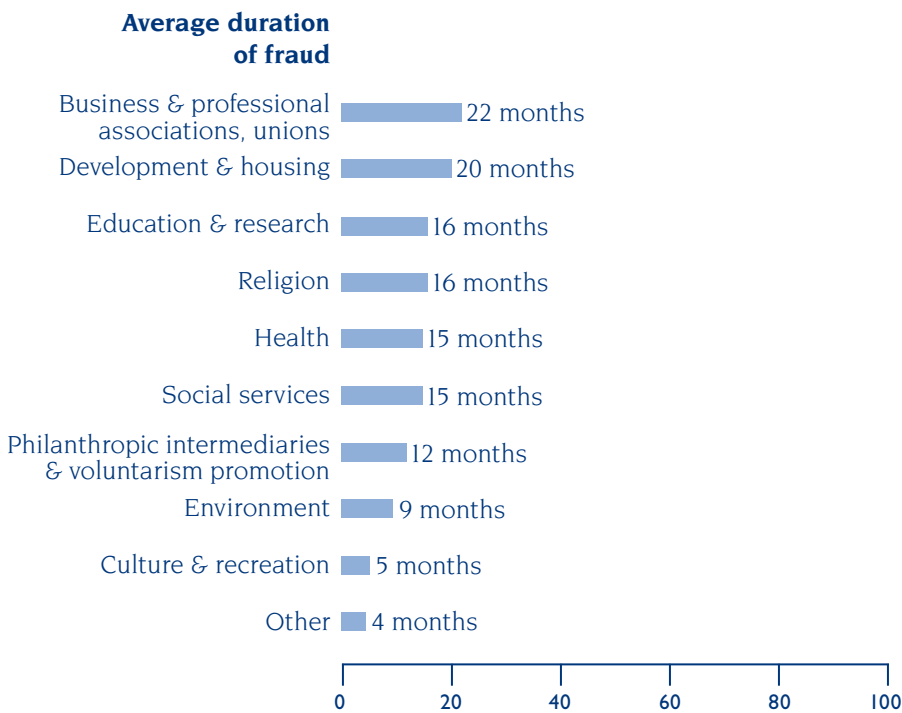


Chart 4.21: Average duration of largest fraud by industry category

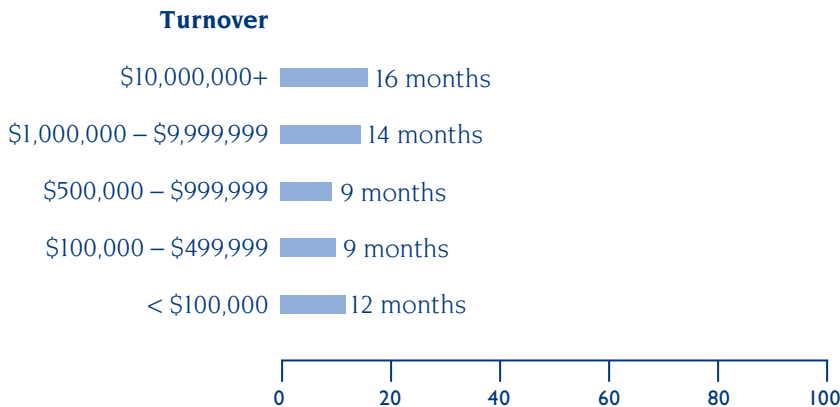


Chart 4.22: Average duration of largest fraud by turnover

**Respondent comment:**  
 "The person didn't believe the action was fraudulent."

When considering controls to be put in place, it is important to consider both prevention and detection controls. Prevention controls will reduce the likelihood of fraud occurring, however these need to be partnered with detection controls. It's the detection controls that will result in fraud being discovered.

#### 4.7 What motivated the person to commit the fraud?

There is usually an underlying reason why people commit fraud. Some perpetrators believe committing fraud is the only way to solve a problem they are facing (*e.g.* financial pressures), while others simply see committing fraud as a challenge. The challenge comes about by determining a way to breach controls and then to not have the fraud discovered.

Responses to this survey indicate that financial problems and pressures are the most common motivator for fraud, followed by the desire to maintain lifestyle and gambling. This provides an interesting conundrum for not-for-profit organisations, particularly those who have core values based around supporting people in need.

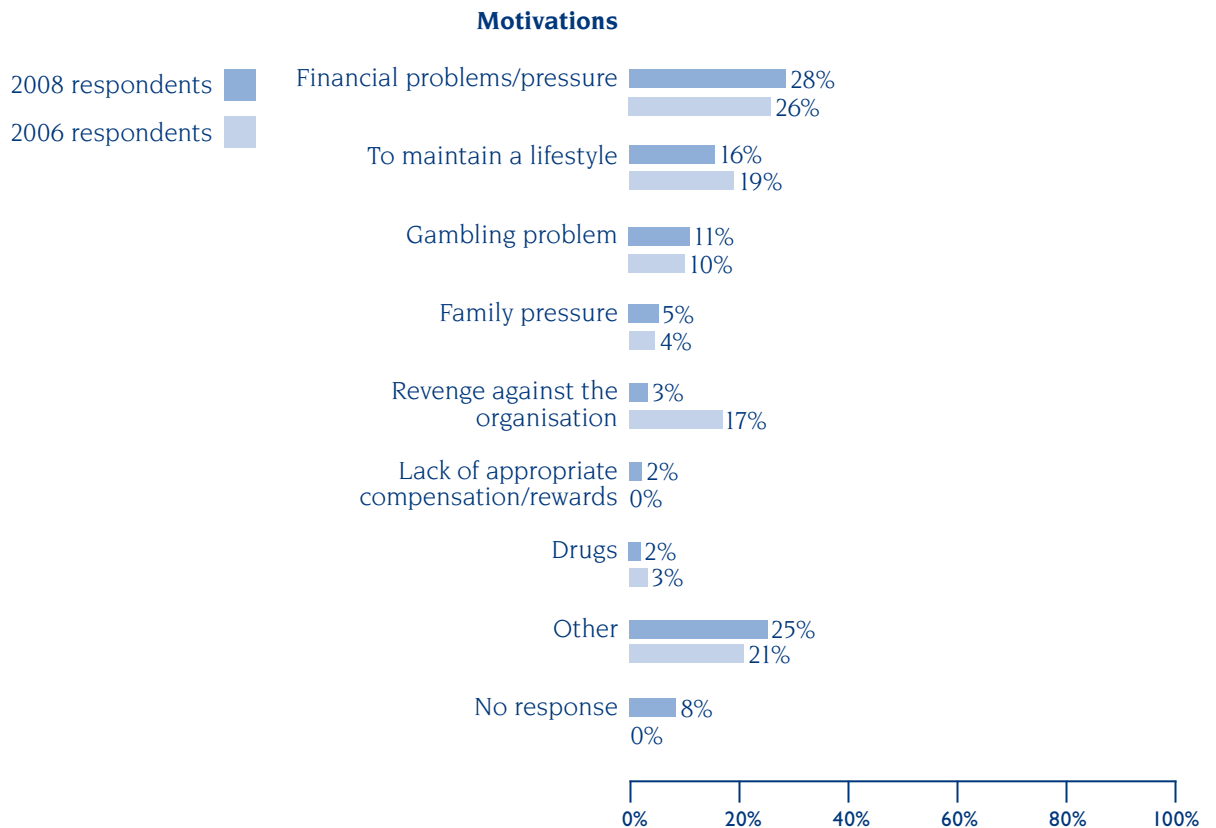


Chart 4.23: Comparative: Motivation behind fraud committed

Some of the other responses as to why the perpetrator committed the fraud included:

- “They thought they had a legitimate right”
- “Maintain a second business”
- “They didn’t believe the action was fraudulent”

MOTIVATIONS	NUMBER OF FRAUDS	TOTAL VALUE OF FRAUDS	AVERAGE VALUE OF FRAUD
Gambling problem	7	\$1,264,500	\$180,643
To maintain a lifestyle	9	\$410,000	\$45,556
Financial problems/pressure	15	\$197,250	\$13,150
Family pressure	3	\$100,850	\$33,617
Revenge against the organisation	2	\$22,000	\$11,000
Lack of appropriate compensation/rewards	1	\$5,000	\$5,000
Drugs	1	\$8,000	\$8,000
Other	13	\$358,800	\$27,600
No response	1	\$1,000	\$1,000
Total	52	\$2,367,400	\$45,527

Chart 4.24: Value of fraud by primary motivation

### Financial problems and pressures

Financial problems and pressures was the reason given for 28% of the fraud in the not-for-profit sector. It accounted for only 8% of the value of such frauds, with a relatively low average value (\$13,150). In comparison, this was also the highest percentile from the BDO *not-for-profit fraud survey 2006*.

### Lifestyle maintenance

Maintenance of a desired lifestyle accounted for 16% of not-for-profit frauds. It accounted for 17% of the total value of such frauds, with an average value of \$45,556.

### Gambling

Gambling problems were associated with only 11% of reported frauds in the not-for-profit sector. However, such problems accounted for 53% of the total value of frauds reported and were associated with the highest average value of \$180,643.

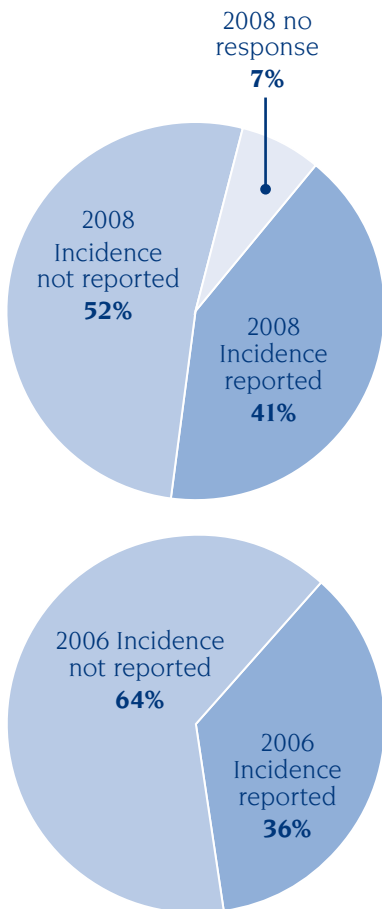


Chart 4.25: Comparative: Incidence of fraud reported to the police

### Responding to motivations

The survey indicates an interesting management issue for organisations. Clearly there are two types of perpetrators: those who feel they are forced into committing fraud because there are no other alternatives available (*e.g.* financial pressures become overwhelming and they can see no alternative but to commit fraud to escape debts) and perpetrators who offend as a form of revenge or greed (*e.g.* funding a gambling habit, or supporting a level of lifestyle they would normally not be able to afford).

### 4.8 What action was taken after the fraud discovery?

Considering the average value of fraud reported in the survey was less than \$50,000, it is understandable that 52% of organisations did not believe the Police would be sufficiently interested in the matter and did not want to become involved in a lengthy investigation and prosecution. However, it should be noted that the percentage of incidences of fraud reported to the Police has increased from 36% in the BDO *not-for-profit fraud survey 2006* to 41% in 2008.

#### Reasons not reported to Police

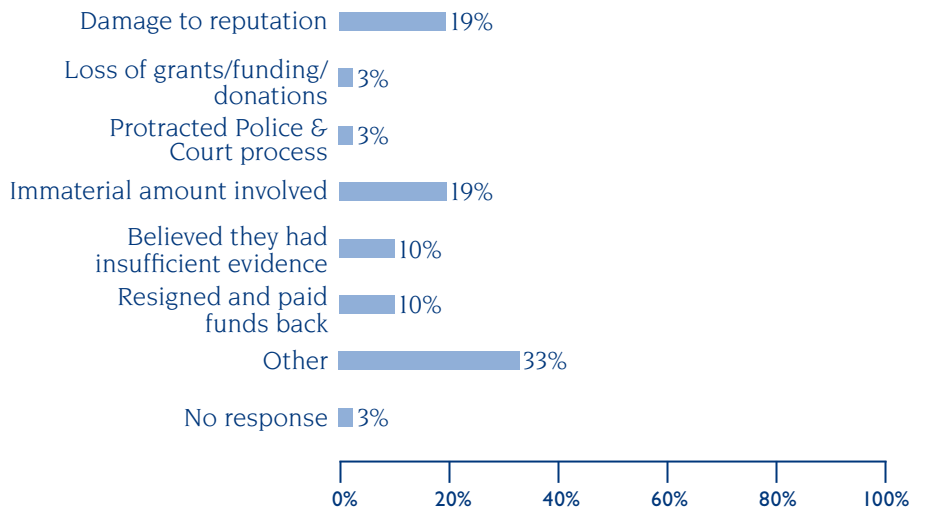


Chart 4.26: Reasons why frauds were not reported to the Police

A key deterrent for organisations is the possibility of bad publicity with 19% of respondents expressing a concern about damaged reputation and 3% about the potential loss of funding. What the not-for-profit organisation considered would be immaterial for investigation meant that 19% of respondents did not report their matter to the Police.

Some comments received from respondents as to why the matter was not reported to Police include:

- “The employee resigned and agreed to full reimbursement of the amount.”
- “Compassion, the employee had given 10 years of prior loyal service.”
- “The matter was managed and resolved internally.”
- “Previous fraud reported went to court with a good case and still didn’t win. It appears pointless to pursue fraud.”

Over two-thirds of fraud incidents reported to the Police were investigated in less than six months. However, finalising the matter through the Courts seems to take much longer.

**Time to finalise matter in the courts**

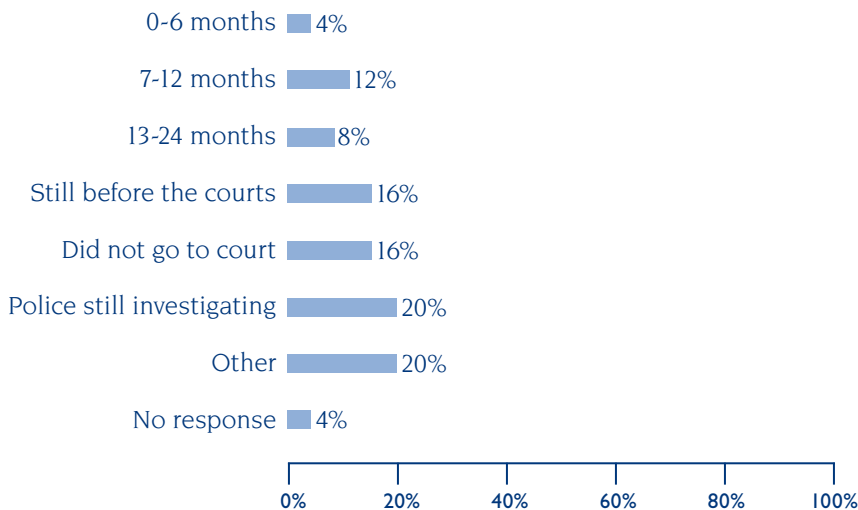


Chart 4.27: Time to finalise the matter through the Courts

The majority of fraud incidents (84%) were investigated internally by the organisation. Nearly half (47%) of frauds were investigated by the chief executive officer or the chief financial officer. Other parties involved in these investigations included other senior managers or external parties (such as forensic accountants) working with internal investigators. Where the frauds were investigated externally, the Police, external auditors and solicitors conducted these investigations.

**Respondent comment:**

“Internal controls meant a collector had to account for the missing money. He made a fraudulent report to police about being mugged so the police discovered he was not telling the truth. We did not press charges as the offender was remorseful and the family repaid the amount.”

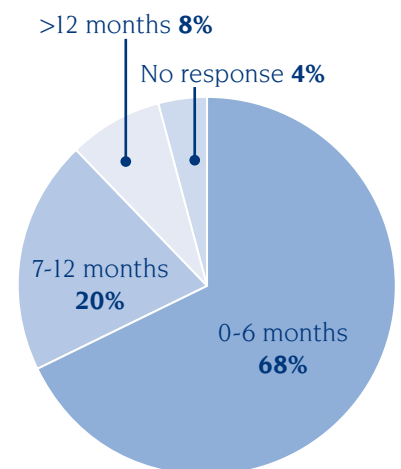


Chart 4.28: Duration of police investigation

**Respondent comment:**

“The client was given the choice; pay the money back or police will be involved. They paid the money back.”



Chart 4.30: Organisations conducting internal fraud investigations

#### Internal fraud investigator

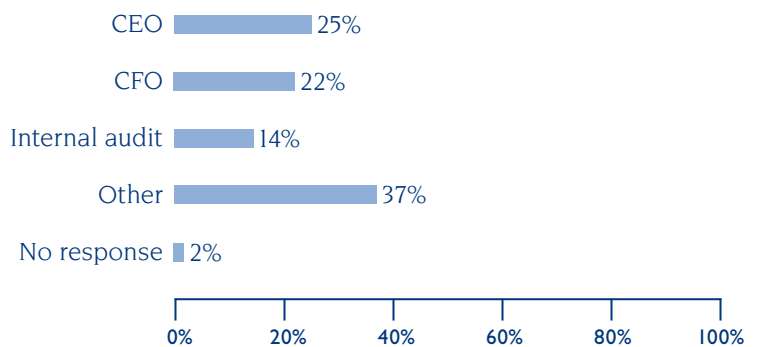


Chart 4.29: Internal investigators of fraud

It is interesting to note that 20% of organisations did not terminate the employment of the person who committed the fraud. This may be as a result of organisations considering some frauds to be minor. This potentially can send a dangerous message to other employees. By not terminating, an employee can continue to commit fraud. It also sends the wrong message to other employees/volunteers that they can commit fraud with little or no consequences – they will not lose their job and could possibly not have to repay their debt.

#### Employment of perpetrator terminated?

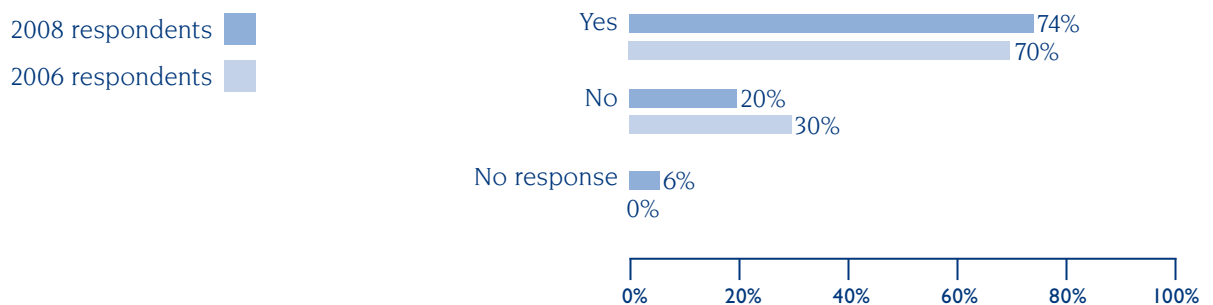


Chart 4.31: Comparative: Organisations who terminated the employment of the perpetrator

Some comments as to why there was no termination of the perpetrator include:

- “The person conducting the fraud was acting CEO at the time. There was limited opportunity and evidence to investigate further”
- “The person had resigned already”
- “The fraud was treated as unintentional use of company funds; however this was outside company policy”
- “The staff member showed remorse”

The amount of loss recovered from perpetrators is generally linked to the reason they have committed the fraud in the first place. For example, a person who has a gambling problem will have minimal funds available due to their addiction; similarly a person funding a drug problem will have little or no assets. In nearly half the fraud incidents reported (46%), none of the loss was recovered by the organisation. In comparison, a person who commits fraud to maintain a lifestyle may have assets such as a house, a car or even a boat which potentially can be utilised to recover the loss. Thirty-eight percent of organisations recovered 76-100% of the loss. One organisation “put a caveat over her house so we could get our money back”.

**Extent of loss recovered**

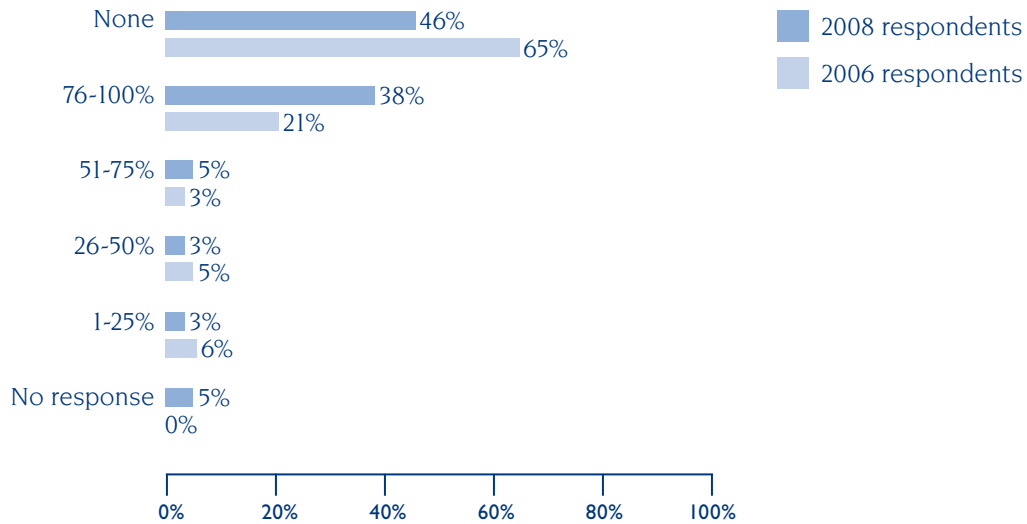


Chart 4.32: Comparative: Percentage of the loss recovered

## 4.9 Conclusion

This Section addressed a specific case of fraud as experienced by an organisation over the past two years. The type of fraud, who committed the fraud, the element of collusion, value, method of discovery, timing of discovery, motivation and actions taken once the fraud was discovered were all examined.

Based on this information the characteristics of a typical fraud in a not-for-profit organisation are as follows:

- Cash theft;
- Committed by a paid employee in his/her forties, in a non-accounting role;
- No collusion involved;
- On average was less than \$50,000;
- Discovered by either internal controls or a tip off;
- Discovered within fourteen months of the fraud occurring;
- The result of financial problems or pressures on the perpetrator; and
- No funds were recovered from the perpetrator.

## 4.10 A final word from our respondents

The actions taken by respondents varied. This can be seen from the comments made by respondents:

“It is difficult to get aged customers to complain and they rarely want the police involved.”

“Person had been a long standing member of the organisation including holding the President’s position.”

“Recovery of the full amount took almost two years of vigilance imposing the court order and following up when payments failed to appear – lots of staff time.”

“We placed a caveat over her house so we could get our money back.”

“We will push for both a recorded conviction and recovery of funds.”





# 5

## 5. Fraud prevention

Fraud prevention should be an integral component of an organisation's risk management strategy. Unfortunately for many, responding after a fraud can have long-term ramifications on business operations, including fund raising and profile raising initiatives. This section explores the types of fraud prevention in place by the sector and considers new approaches for managing fraud.

Key findings include:

- 88% of respondents see fraud prevention as important;
- Strong internal controls (74%) and an ethical organisational culture (74%) were seen as the key factors required to reduce the risk of fraud;
- Fraud control policies and fraud risk assessments have been implemented by over a third of respondents; and
- Of the respondents that reported fraud incidents, 36% had discovered the fraud through internal controls, 25% through employee/volunteer tip offs and 13% through internal audit.

There is an obvious level of confusion regarding the purpose of an external audit in relation to detecting fraud. For many respondents, an external audit was relied upon to identify fraud (70%) but in reality the primary purpose of an external audit is to express an opinion on an organisation's financial reports.

This survey has considered the importance of fraud prevention methods, including the types of methods organisations have in place and the link this has with perceptions of fraud both in organisations and across the sector. Organisations may fail to realise that without fraud prevention methods, detecting fraud becomes almost impossible unless you literally stumble across it.

### 5.1 Is fraud prevention important?

The majority of respondents (88%) see fraud prevention as important. Nearly 60% assess the importance of fraud prevention as very important or extremely important. It is also apparent that organisations that have experienced fraud, place a higher importance on fraud prevention than those who have not.

There is a strong correlation between the size and turnover of an organisation and whether that organisation determines fraud prevention to be important. That is, the larger the turnover of the organisation, the more likely the organisation perceives that fraud prevention is important.

As discussed in the analysis of how fraud is perceived by the sector, this is related to the number of employees and the greater exposure these organisations have to the possibility of fraud.

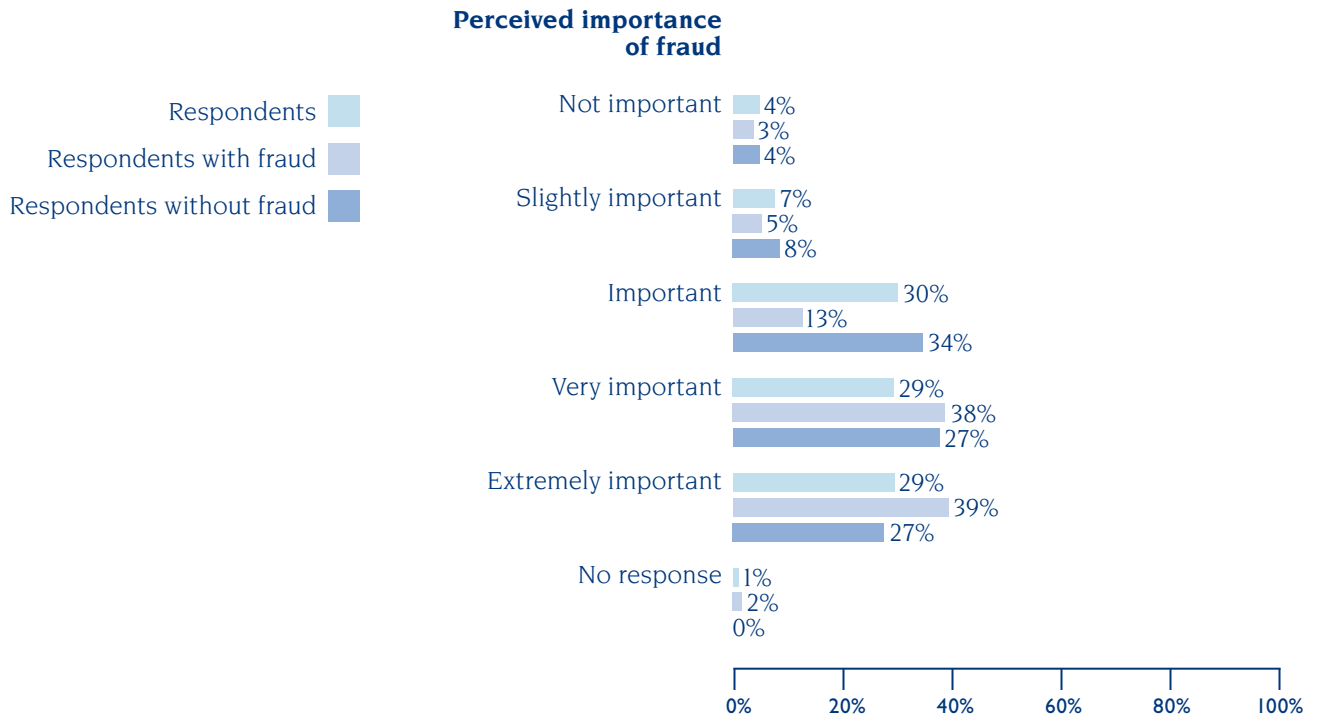


Chart 5.1: Perceptions of the importance of fraud prevention

### Perceived importance of fraud prevention

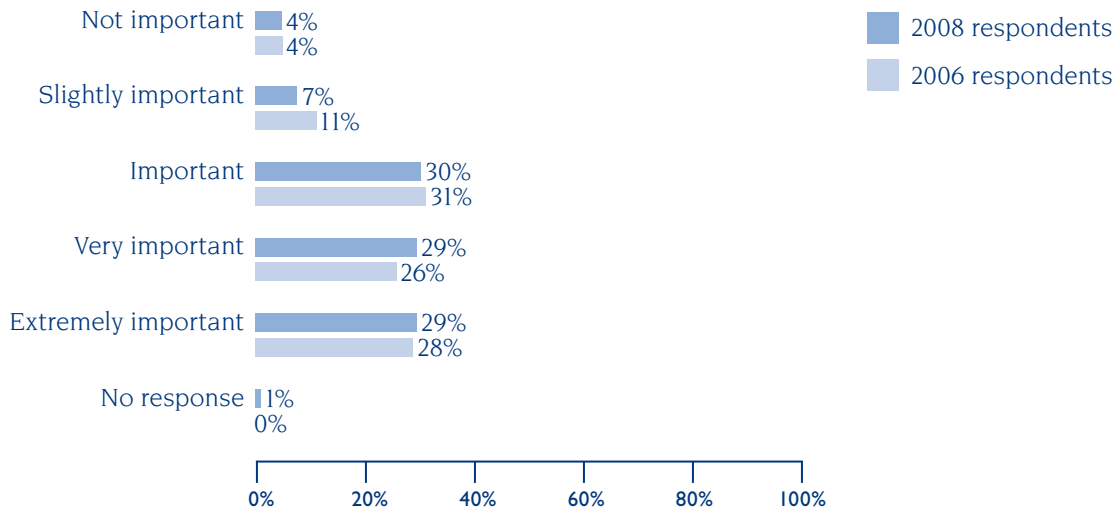


Chart 5.2: Comparative: Perceptions of the importance of fraud prevention

### Turnover

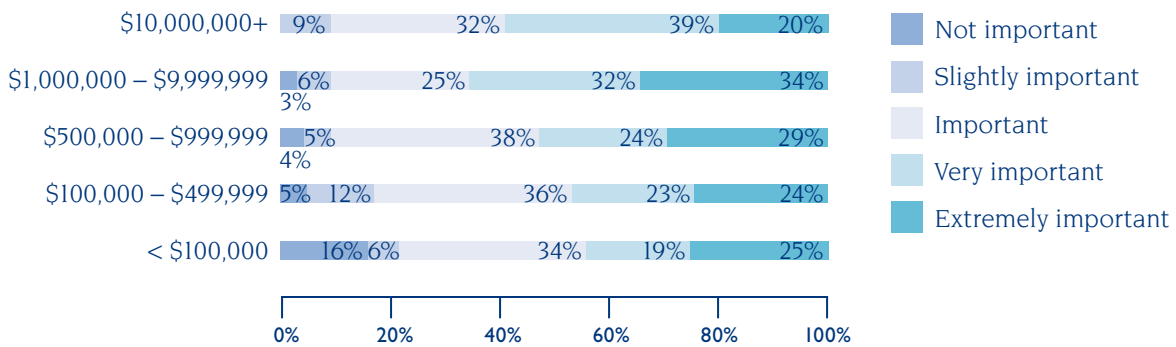


Chart 5.3: Ranking of importance by turnover

The majority of organisations ranked fraud prevention to be extremely important (29%) or very important (29%). Interestingly, only 41% of respondents have implemented a fraud control policy (explored further at Chart 5.7).

As with the BDO *not-for-profit fraud survey 2006* results, there appears to be no apparent correlation between the perception of fraud as a problem and the importance of fraud prevention when industry categories are considered.

INDUSTRY CATEGORY	NOT IMPORTANT	SLIGHTLY IMPORTANT	IMPORTANT	VERY IMPORTANT	EXTREMELY IMPORTANT	NO RESPONSE
Culture & recreation	5%	5%	39%	36%	15%	
Education & research	2%	4%	31%	33%	30%	
Health	4%	6%	25%	33%	32%	
Social services	3%	10%	33%	26%	26%	2%
Environment	22%	11%	22%		45%	
Development & housing	5%	5%	24%	33%	33%	
Law, advocacy & politics		29%	14%	14%	43%	
Philanthropic intermediaries & voluntarism promotion			43%	14%	43%	
International		20%		40%	40%	
Religion		14%	29%	43%	14%	
Business & professional associations, unions	4%	13%	38%	25%	20%	
Other	4%	2%	25%	25%	38%	6%
Total	4%	7%	30%	29%	29%	1%

Chart 5.4: Importance of fraud prevention by category

## 5.2 What factors reduce the risk of fraud?

Strong internal controls (74%), an ethical organisational culture (74%), and external audits (70%) were considered primary factors of respondents in reducing the risk of fraud along with both top management/board support (66%) and an internal audit function (57%). Amongst respondents who had suffered fraud, it is interesting to note the increased perceived importance of strong internal controls and prosecution of offenders in reducing fraud risk and the reduced confidence in the importance of external audits.

**Primary factors reducing the risk of fraud**

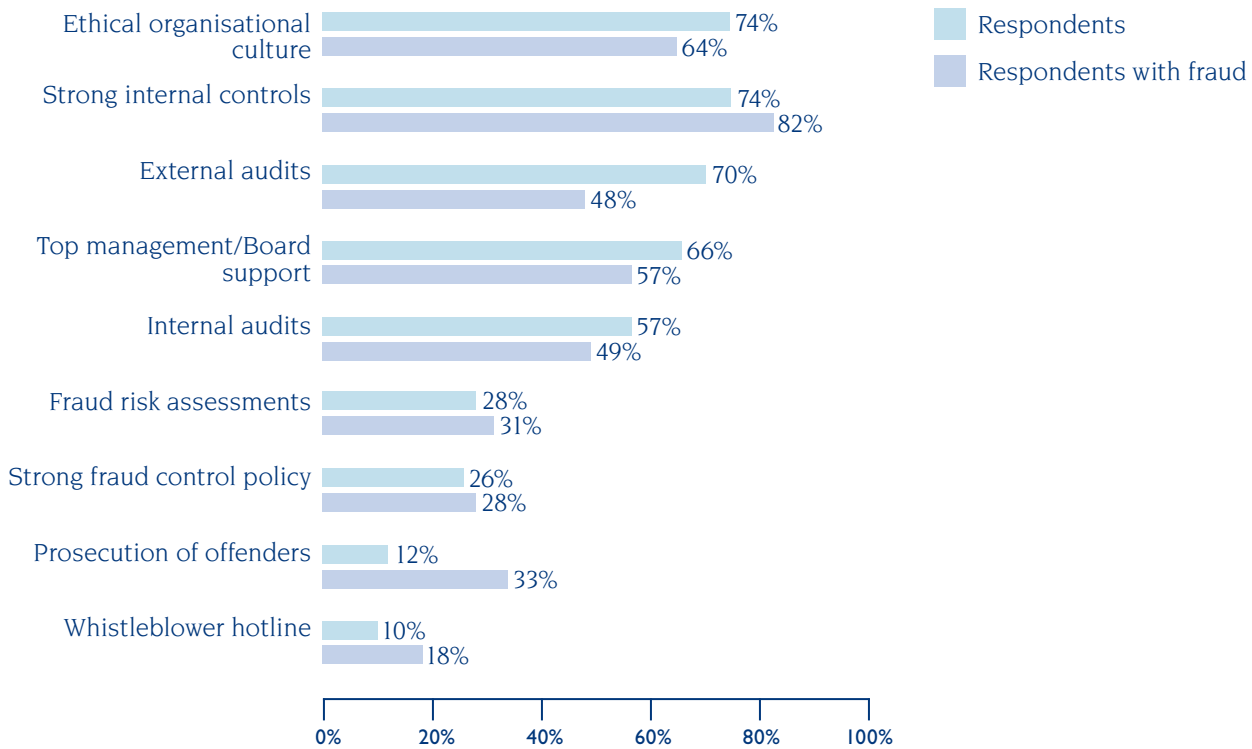


Chart 5.5: Primary factors reducing the risk of fraud

As with the results from the BDO *not-for-profit fraud survey 2006*, it is interesting to compare the methods organisations use to deter and detect fraud as compared to the ways fraud was actually discovered.

Below is a comparison of the methods used to reduce the risk of fraud and the actual methods through which fraud was detected.

	HOW FRAUD WAS DISCOVERED	METHODS USED TO CONTROL AND DETECT FRAUD
Strong internal controls	36%	74%
Tip offs	33%	10%
Internal audit	13%	57%
External audit	5%	70%

Chart 5.6: Methods to reduce risk and detect fraud

# Putting fraud into perspective: RSPCA QLD

Receiving less than 2% in government funding and with an annual operating budget of \$16 million, RSPCA Qld is entirely dependant on supporters' donations to help fund its vital work. The RSPCA is responsible for rescuing sick and injured animals, re-homing abandoned and neglected animals, prosecuting animal cruelty offenders and educating communities about the humane treatment of animals.



*As a little eight week old puppy, Van, had his ears hacked off with a pair of scissors to make him look tough - without sedation or pain relief. Van has since been adopted by a loving family and his previous owner received a three month jail term.*

The scope of fraud can be extensive and as such its impact can be even more significant. If the RSPCA Qld were to experience fraud it could potentially impact the 41,000 animals who rely

on it to care and protect them, the thousands of volunteers who enjoy the personal fulfilment and reward that comes from making an important contribution to animal welfare and the supporters who entrust their funds towards the state's leading welfare charity, dedicated to improving the welfare of all domestic, farm and wild animals.

The average largest fraud of \$45,000 committed in the sector would have an adverse impact on any organisation and its capacity to deliver programs and services. For RSPCA Qld, this amount could be used to:

- desex over 900 unwanted cats and dogs and help to put an end to thousands of unnecessary deaths;
- prosecute 45 animal cruelty offenders and serve as a deterrent to others with a clear message that abuse of animals is a crime and will simply not be tolerated;
- provide shelter and care for up to 650 abandoned and neglected animals for one week; and
- train hundreds of volunteers with the necessary skills to make a real contribution to the welfare of animals throughout Queensland.

Prevention of fraud is essential for not-for-profits as the financial losses extend far beyond the organisation. They are felt by the recipients who lose the availability and access of essential programs and services, the volunteers who lose the opportunity to meet new people, learn new skills and enhance personal fulfilment and the supporters who lose belief and hope in worthy and good cause. These costs cannot be measured by any monetary amount.

Although RSPCA Qld is fortunate enough not to have been affected by fraud, we are grateful for BDO Kendalls' work to raise awareness and provide key research to the sector in an effort to reduce criminal activity in not-for-profit organisations.

**Mark Townend**  
Chief Executive Officer  
RSPCA Qld

[www.rspcaqld.org.au](http://www.rspcaqld.org.au)

While external audit is often relied upon by organisations as a method to reduce fraud risk (70%), it only accounts for a minimal number of the frauds discovered (5%).

There has been a common misconception across many sectors, including the not-for-profit sector, that external audits are conducted to detect fraud. External audits are conducted to express an opinion on the organisation’s financial report. Audits are planned and performed to obtain reasonable assurance whether the financial report is free from material misstatement. As such, auditors must consider the risk of material misstatement due to both fraud and error. Audit procedures are not designed to detect all fraud, only that which could result in material misstatements in the financial report.

Australian Auditing Standard ASA 240 clearly states “the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and with management”. It is not the principal responsibility of an organisation’s external auditor to detect fraud.

It is interesting to compare how frauds are actually discovered, with the methods that organisations implement to reduce the risk of fraud and discover fraud when it does occur.

Strong controls, an ethical organisational culture and external audits are seen as primary factors in reducing the risk of fraud. Of the respondents which reported fraud incidents, 36% had discovered the fraud through internal controls, 33% through tips and 13% through internal audit. Only 5% had been alerted to the incidents by their external auditors.

### 5.3 Do organisations have specific fraud related policies and assessments?

#### Implemented preventive measures

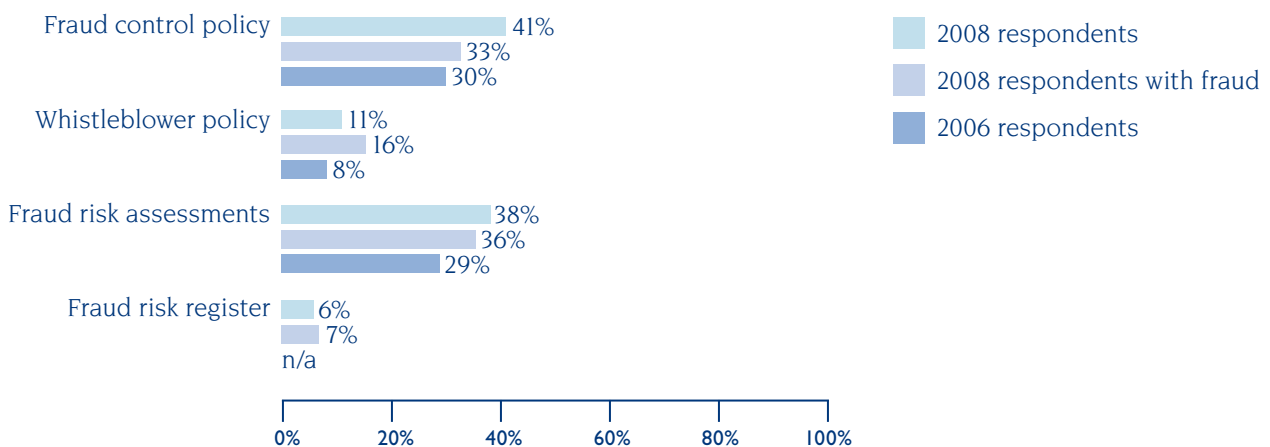


Chart 5.7: Comparative: Preventive measures implemented by respondents

Fraud control policies and fraud risk assessments have been implemented by over a third of respondents. Fraud control policies were implemented as accepted practice in the sector, or on the recommendation of the board or external auditors.

REASONS FOR IMPLEMENTING A FRAUD CONTROL POLICY	% OF RESPONDENTS WITH A FRAUD CONTROL POLICY
Accepted practice in the sector	41%
Board recommendation	41%
External audit recommendation	34%
Professional organisation recommendation	27%
Fraud risk assessment recommendation	20%
Fraud was discovered	15%
Internal audit recommendation	13%

Chart 5.8: Reasons for implementing a fraud control policy (respondents could provide more than one response)

Whistle blower facilities have become a common method of discovering fraud in large organisations in the public and private sector. The good news is that research has found the vast majority of employees, over 90 per cent, would want to speak out if they discovered their boss had committed a serious fraud.<sup>1</sup> Of those who would report suspicions of fraud to someone at work, over one-third feared some sort of recrimination, whether losing their job, being cold-shouldered by colleagues or in some way having their career prospects harmed. Importantly, organisations need to consider these perceptions and implement a whistle blower policy that allows employees a voice without recrimination.

REASONS FOR IMPLEMENTING A WHISTLE BLOWER POLICY	% OF RESPONDENTS WITH A WHISTLE BLOWER POLICY
Professional organisation recommendation	42%
Board recommendation	30%
External audit recommendation	30%
Accepted practice in the sector	28%
Fraud risk assessment recommendation	16%
Internal audit recommendation	9%
Fraud was discovered	5%

Chart 5.9: Reasons for implementing a whistle blower policy (respondents could provide more than one response)

## 5.4 Conclusion

It is interesting to note that while the vast majority of respondents to the survey considered fraud prevention to be important to their organisation, only 41% of participants had implemented a fraud control policy and only 11% had implemented a whistle blowers policy.

Having these policies in place provides employees and volunteers with an understanding of the organisation's tolerance of fraud. Policies alone can act as a deterrent if employees and volunteers know an organisation will act if they are breached.

Only 16% of organisations that reported that they had suffered fraud responded that they have a whistle blowers policy. However, 33% of fraud was discovered by tip offs from employees, volunteers, suppliers and clients.

## 5.5 A final word from our respondents

As can be seen by the results in the sector, there remains some resistance to implementing fraud control and other related policies and procedures. Our respondents provided some interesting comments, as follows:

"You offer many great ideas but my peers will not do a thing until it hits them and eventually it will."

"The organisation has commenced risk management policy planning which will extend to implementing from the internal controls to minimise fraud."

"I introduced the above policies against initial resistance as I have seen a lot of fraud in my career and considered the policies necessary."

"We are very strong on risk management in relation to the emotional, psychological and physical safety of our clients and staff – fraud was not on the landscape until it happened in our organisation."

"Internal audit had twice attempted to introduce a whistle blower policy however it has been rejected by senior management."

# End notes

## Chapter 1

- 1 Australian Bureau of Statistics, Non-profit Institutions Satellite Account, Australian National Accounts 1999/2000. Cat.No. 5256.0, ABS, Canberra, 2002
- 2 ABS Voluntary Work, Australia Survey (2006)
- 3 Statistics New Zealand: Non-profit Institutions, <http://www.stats.govt.nz/people/communities/non-profit-institutions/default.htm>
- 4 ABS Voluntary Work, Australia Survey (2006). These figures were released in July 2007. ([www.volunteeringaustralia.org](http://www.volunteeringaustralia.org))
- 5 <http://www.philanthropy.org.au/factsheets/7-05-06-volunt.htm>
- 6 ABS Voluntary Work, Australia Survey (2006).
- 7 Statistics New Zealand: Non-profit Institutions, <http://www.stats.govt.nz/people/communities/non-profit-institutions/default.htm>

## Chapter 3

- 1 KPMG Fraud Survey 2006

## Chapter 4

- 1 KPMG Fraud Survey 2006
- 2 BDO Stoy Hayward FraudTrack 3: Rising fraud in the spotlight, Annual Survey 2006
- 3 KPMG Fraud Survey 2006
- 4 BDO Stoy Hayward FraudTrack 3: Rising fraud in the spotlight, Annual Survey 2006

## Chapter 5

- 1 BDO Stoy Hayward: FraudTrack 3: Rising fraud in the spotlight, Annual Survey 2006, Section 4

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# Appendix A

## International classification of not-for-profit organisations: Detailed table<sup>1</sup>

### Group 1 – Culture and recreation

#### 1 100 Culture and arts

**Media and communications.** Production and dissemination of information and communication; includes radio and TV stations; publishing of books, journals, newspapers and newsletters; film production; and libraries.

**Visual arts, architecture, ceramic art.** Production, dissemination and display of visual arts and architecture; includes sculpture, photographic societies, painting, drawing, design centres and architectural associations.

**Performing arts.** Performing arts centres, companies and associations; includes theatre, dance, ballet, opera, orchestras, chorals and music ensembles.

**Historical, literary and humanistic societies.** Promotion and appreciation of the humanities, preservation of historical and cultural artefacts and commemoration of historical events; includes historical societies, poetry and literary societies, language associations, reading promotion, war memorials and commemorative funds and associations.

**Museums.** General and specialised museums covering art, history, sciences, technology and culture.

**Zoos and aquariums.**

#### 1 200 Sports

Provision of amateur sport, training, physical fitness and sport competition services and events; includes fitness and wellness centres.

#### 1 300 Other recreation and social clubs

**Recreation and social clubs.** Provision of recreational facilities and services to individuals and communities; includes playground associations, country clubs, men's and women's clubs, touring clubs and leisure clubs.

**Service clubs.** Membership organisations providing services to members and local communities, for example, Lions, Zonta International, Rotary Club and Kiwanis.

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<sup>1</sup> Adapted from Lester Salamon, Helmut Anheier, Regina List, Stefan Toepler, S. Wojciech Sokolowski and associates, *Global Civil Society: Dimensions of the Non-profit Sector*. (Baltimore: Johns Hopkins Center for Civil Society Studies, 1999).

## Group 2 – Education and research

### 2 100 Primary and secondary education

**Elementary, primary and secondary education.** Education at elementary, primary and secondary levels; includes pre-school organisations other than day care.

### 2 200 Higher education

**Higher education.** Higher learning, providing academic degrees; includes universities, business management schools, law schools and medical schools.

### 2 300 Other education

**Vocational/technical schools.** Technical and vocational training specifically geared towards gaining employment; includes trade schools, paralegal training and secretarial schools.

**Adult/continuing education.** Institutions engaged in providing education and training in addition to the formal education system; includes schools of continuing studies, correspondence schools, night schools and sponsored literacy and reading programmes.

### 2 400 Research

**Medical research.** Research in the medical field; includes research on specific diseases, disorders or medical disciplines.

**Science and technology.** Research in the physical and life sciences and engineering and technology.

**Social sciences, policy studies.** Research and analysis in the social sciences and policy area.

## Group 3 – Health

### 3 100 Hospitals and rehabilitation

**Hospitals.** Primarily inpatient medical care and treatment.

**Rehabilitation.** Inpatient health care and rehabilitative therapy to individuals suffering from physical impairments due to injury, genetic defect or disease and requiring extensive physiotherapy or similar forms of care.

### 3 200 Nursing homes

**Nursing homes.** Inpatient convalescent care and residential care, as well as primary health-care services; includes homes for the frail elderly and nursing homes for the severely handicapped.

### 3 300 Mental health and crisis intervention

**Psychiatric hospitals.** Inpatient care and treatment for the mentally ill.

**Mental health treatment.** Outpatient treatment for mentally ill patients; includes community mental health centres and halfway homes.

**Crisis intervention.** Outpatient services for counsel in acute mental health situations; includes suicide prevention and support to victims of assault and abuse.

### 3 400 Other health services

**Public health and wellness education.** Public health promotion and health education; includes sanitation screening for potential health hazards, first aid training and services and family planning services.

**Health treatment, primarily outpatient.** Organisations that provide primarily outpatient health services, *e.g.* health clinics and vaccination centres.

**Rehabilitative medical services.** Outpatient therapeutic care; includes nature cure centres, yoga clinics and physical therapy centres.

**Emergency medical services.** Services to persons in need of immediate care; includes ambulatory services and paramedical emergency care, shock/trauma programmes, lifeline and ambulance services.

## Group 4 – Social Services

### 4 100 Social services

**Child welfare, child services and day care.** Services to children, adoption services, child development centres, foster care; includes infant-care centres and nurseries.

**Youth services and youth welfare.** Services to youth; includes delinquency prevention services, teen pregnancy prevention, drop-out prevention, youth centres and clubs and job programmes for youth; includes YMCA, YWCA, Boy Scouts, Girl Scouts and Big Brothers/ Big Sisters.

**Family services.** Services to families; includes family life/parent education, single parent agencies and services and family violence shelters and services.

**Services for people with disabilities.** Services for people with disabilities; includes homes, other than nursing homes, transport facilities, recreation and other specialised services.

**Services for the elderly.** Organisations providing geriatric care; includes in-home services, homemaker services, transport facilities, recreation, meal programmes and other services geared towards senior citizens (does not include residential nursing homes).

**Self-help and other personal social services.** Programmes and services for self-help and personal development; includes support groups, personal counselling and credit counselling/money management services.

#### 4 200 Emergency and relief

**Disaster/emergency prevention and control.** Organisations that work to prevent, predict, control and alleviate the effects of disasters, to educate or otherwise prepare individuals to cope with the effects of disasters, or to provide relief to disaster victims; includes volunteer fire departments, life boat services etc.

**Temporary shelters.** Organisations providing temporary shelters to the homeless; includes travellers aid and temporary housing.

**Refugee assistance.** Organisations providing food, clothing, shelter and services to refugees and immigrants.

#### 4 300 Income support and maintenance

**Income support and maintenance.** Organisations providing cash assistance and other forms of direct services to persons unable to maintain a livelihood.

**Material assistance.** Organisations providing food, clothing, transport and other forms of assistance; includes food banks and clothing distribution centres.

### Group 5 – Environment

#### 5 100 Environment

**Pollution abatement and control.** Organisations that promote clean air, clean water, reducing and preventing noise pollution, radiation control, treatment of hazardous wastes and toxic substances, solid waste management and recycling programmes.

**Natural resources conservation and protection.** Conservation and preservation of natural resources, including land, water, energy and plant resources for the general use and enjoyment of the public.

**Environmental beautification and open spaces.** Botanical gardens, arboreta, horticultural programmes and landscape services; organisations promoting anti-litter campaigns; programmes to preserve the parks, green spaces and open spaces in urban or rural areas; and city and highway beautification programmes.

#### 5 200 Animal protection

**Animal protection and welfare.** Animal protection and welfare services; includes animal shelters and humane societies.

**Wildlife preservation and protection.** Wildlife preservation and protection; includes sanctuaries and refuges.

**Veterinary services.** Animal hospitals and services providing care to farm and household animals and pets.

## Group 6 – Development and housing

### 6 100 Economic, social and community development

**Community and neighbourhood organisations.** Organisations working towards improving the quality of life within communities or neighbourhoods, *e.g.* squatters' associations, local development organisations and poor people's cooperatives.

**Economic development.** Programmes and services to improve economic infrastructure and capacity; includes building and infrastructure, such as roads, and financial services, such as credit and savings associations, entrepreneurial programmes, technical and managerial consulting and rural development assistance.

**Social development.** Organisations working towards improving the institutional infrastructure and capacity to alleviate social problems and to improve general public well-being.

### 6 200 Housing

**Housing associations.** Development, construction, management, leasing, financing and rehabilitation of housing.

**Housing assistance.** Organisations providing housing search, legal services and related assistance.

### 6 300 Employment and training

**Job training programmes.** Organisations providing and supporting apprenticeships, internships, on-the-job training and other training programmes.

**Vocational counselling and guidance.** Vocational training and guidance, career counselling, testing and related services.

**Vocational rehabilitation and sheltered workshops.** Organisations that promote self-sufficiency and income generation through job training and employment.

## Group 7 – Law, advocacy and politics

### 7 100 Civic and advocacy organisations

**Advocacy organisations.** Organisations that protect the rights and promote the interests of specific groups of people, *e.g.* the physically handicapped, the elderly, children and women.

**Civil rights associations.** Organisations that work to protect or preserve individual civil liberties and human rights.

**Ethnic associations.** Organisations that promote the interests of or provide services to members belonging to a specific ethnic heritage.

**Civic associations.** Programmes and services to encourage and spread civic mindedness.

## 7 200 Law and legal services

**Legal services.** Legal services, advice and assistance in dispute resolution and court-related matters.

**Crime prevention and public policy.** Crime prevention to promote safety and precautionary measures among citizens.

**Rehabilitation of offenders.** Programmes and services to reintegrate offenders; includes halfway houses, probation and parole programmes, prison alternatives.

**Victim support.** Services, counsel and advice to victims of crime.

**Consumer protection associations.** Protection of consumer rights and the improvement of product control and quality.

## 7 300 Political organisations

**Political parties and organisations.** Activities and services to support the placing of particular candidates into political office; includes dissemination of information, public relations and political fund-raising.

## Group 8 – Philanthropic intermediaries and voluntarism promotion

### 8 100 Grant-making foundations

**Grant-making foundations.** Private foundations, including corporate foundations, community foundations and independent public-law foundations.

### 8 200 Other philanthropic intermediaries and voluntarism promotion

**Volunteerism promotion and support.** Organisations that recruit, train and place volunteers and promote volunteering.

**Fund-raising organisations.** Federated, collective fund-raising organisations; includes lotteries.

## Group 9 – International

### 9 100 International activities

**Exchange/friendship/cultural programmes.** Programmes and services designed to encourage mutual respect and friendship internationally.

**Development assistance associations.** Programmes and projects that promote social and economic development abroad.

**International disaster and relief organisations.** Organisations that collect, channel and provide aid to other countries during times of disaster or emergency.

**International human rights and peace organisations.** Organisations which promote and monitor human rights and peace internationally.

## **Group 10 – Religion**

### **10 100 Religious congregations and associations**

**Congregations.** Churches, synagogues, temples, mosques, shrines, monasteries, seminaries and similar organisations promoting religious beliefs and administering religious services and rituals.

**Associations of congregations.** Associations and auxiliaries of religious congregations and organisations supporting and promoting religious beliefs, services and rituals.

## **Group 11 – Business and professional associations, unions**

### **11 100 Business associations**

**Business associations.** Organisations that work to promote, regulate and safeguard the interests of special branches of business, *e.g.* manufacturers' association, farmers' association and bankers' association.

### **11 200 Professional associations**

**Professional associations.** Organisations promoting, regulating and protecting professional interests, *e.g.* bar associations and medical associations.

### **11 300 Labour unions**

**Labour unions.** Organisations that promote, protect and regulate the rights and interests of employees.

## **Group 12 – (Not elsewhere classified)**

### **12 100 Not elsewhere classified**

# Survey contributors

## BDO

BDO is a global organisation with more than 31,000 staff in more than 626 offices in over 110 countries.

Our core service lines include:

- Audit & Assurance;
- Business Advisory;
- Business Recovery & Insolvency;
- Corporate Finance;
- Forensic Accounting;
- Risk Advisory; and
- Tax Advice & Consulting.

These services are provided to individuals, clients ranging from large corporates to small and medium growth-focused enterprises representing a broad range of industry sectors, as well as government departments and the public sector.

BDO provides an alternative value-based option for these clients. An option that gives all of the flexibility, specialist expertise, closeness and personal service typical of a local firm, together with all of the capabilities, network and strength of a large scale global service.

BDO's guiding principle of internal collaboration is upheld by a common methodology and unified service delivery. BDO firms are dedicated to effective knowledge sharing, and always keep ahead of industry developments in order to give clients the best possible advice trans-nationally.

We continually strive, through our people, relationships, results and reputation, to provide our clients with value that is without equal.

## Not-For-Profit Network

Established in 2004, Not-For-Profit Network's vision is of strong, vibrant and sustainable not-for-profit sectors in Australia and New Zealand. We fulfill this vision by providing specialised services, publications and events that facilitate the sharing of information, skills, experiences and resources.

Where services exist, we fulfill our vision by promoting them through our communication channels. Where we see a need for services we create or facilitate them, which is why we are pleased to join with BDO Kendalls and Queensland University of Technology in this fraud survey – to determine where fraud can occur and identify and communicate ways to mitigate these risks.

Other services we have created include our free email bulletin, which showcases resources available on the world wide web in an easily digestible form, as well as advising readers about news and upcoming events and providing a forum to communicate about issues.



**BDO Kendalls**



**BDO Spicers**



Our Association Management and Membership Matters publications provide practical information on a variety of topics related to running a nonprofit organisation, as well as highlighting news, resources, and events available through other organisations. Events like Executive Update, Membership Roadshow, Risk Roadshow and the International Not-for-profit Convention and Exhibition provide a forum to share information and experiences and to network with peers.

Through our website, [www.nfpn.com.au](http://www.nfpn.com.au), we provide a comprehensive online resource library, a calendar of upcoming events, a directory of suppliers to the sector and more. We are also able to consult on marketing and membership related issues.

To learn more about Not-For-Profit Network, please contact us by calling +61 7 3210 2288, emailing [info@nfpn.com.au](mailto:info@nfpn.com.au) or visiting [www.nfpn.com.au](http://www.nfpn.com.au)



### Queensland University of Technology (QUT)

The School of Accountancy at QUT is one of five discipline-based schools within the Faculty of Business. The School's research and academic programs focus on the areas of accountancy, business law, taxation, accounting information systems, electronic business, voluntary sector studies, philanthropy and social entrepreneurship. Strategic alliances with leading business, industry and government groups ensure that staff within the School are actively involved in applied research, and that its courses are contemporary and relevant. The School also hosts the Australian Centre of Philanthropy and Nonprofit Studies, which is internationally regarded as a leader in research in the areas of philanthropy and nonprofit organisations.

The School offers the Master of Business (Accounting), which is a course for accountancy graduates, developing skills in identifying indicators of poor corporate governance, mismanagement, misrepresentation of financial statements and fraud.

For further information please contact the School of Accountancy on +61 7 3138 5292 or visit the website at [www.bus.qut.edu.au/schools/accountancy](http://www.bus.qut.edu.au/schools/accountancy)

### University of Southern Queensland (USQ)

The School of Accounting, Economics & Finance (AEF) is one of the four academic schools in the Faculty of Business at USQ. The Faculty offers a comprehensive choice of study in undergraduate programs, as well as postgraduate programs available through the USQ Australian Graduate School of Business, and these programs are offered in a variety of modes covering on-campus, distance and online study.

The School of AEF offers accounting, economics and banking & finance majors within the Bachelor of Commerce degree, and a range of double degrees (*e.g.* BCom/BIT, BCom/LLB). The new Bachelor of Accounting & Sustainable Business will be offered from 2008. Specialisations in accounting & sustainable business,



applied finance, business forensics and personal financial planning are offered in the Faculty's postgraduate programs – Master of Business and Master of Business Administration.

For further information, contact the School of AEF on +61 7 4631 1603 or the USQ website at [www.usq.edu.au](http://www.usq.edu.au).

## Survey supporters

The following organisations have supported the survey with their contributions of time in either assisting in the data collection and/or providing comments on survey results. These supporting organisations participated in the BDO *not-for-profit fraud survey 2008* to provide a perspective on fraud from within the sector. Their involvement and contribution in the production of this report does not mean that they were the victim of fraudulent activity, but that as an organisation they feel a responsibility to the sector to ensure not-for-profit organisations are aware of the far reaching implications of fraud.

### Centre for Volunteering

The Centre for Volunteering is a peak organisation representing and advocating for volunteers and volunteer organisations in NSW. The Centre is also a registered training organisation offering accredited and non-accredited course through its School of Volunteer Management (SVM). The School offers a range of volunteer management and business management courses and workshops customised to reflect the unique character and diverse needs of the not-for-profit sector and the people it engages including training and awareness in all areas of management including risk management.

For further information about any of training available through the School of Volunteer Management please ring +61 2 9261 3600 or see our web site [www.volunteering.com.au](http://www.volunteering.com.au)

### ChildFund New Zealand

ChildFund New Zealand is one of New Zealand's most well respected child sponsorship charities. We strive to make the world a safer, healthier and happier place for poor children. ChildFund never discriminates and works wherever the need is greatest, irrespective of religion, ethnicity, gender or national origin.

ChildFund has a unique participatory approach that involves working directly with community leaders and the parents and families of sponsored children. We believe they are best placed to understand their own local needs. ChildFund supports communities to find their own solutions to the problems they face. ChildFund New Zealand is part of ChildFund International, a worldwide organisation whose members provide assistance to more than 11 million impoverished children and families in more than 54 countries across Africa, Asia, Latin America and the Caribbean.

[www.childfund.org.nz](http://www.childfund.org.nz)





### **The Fundraising Institute of New Zealand (FINZ)**

The Fundraising Institute of New Zealand (FINZ) is the professional organisation for people whose day to day work is fundraising. FINZ provides networking, resources and training to their members, all of whom are required to adhere to a code of conduct and ethics and maintain a high level of professionalism in all work undertaken. FINZ members work with over 200 charities and not-for-profit organisations on local, national and global causes. The Institute is committed to the development of ethical, transparent fundraising and works for greater understanding of philanthropy among donors throughout New Zealand.

[www.finz.org.nz](http://www.finz.org.nz)



### **National Disability Services (NDS)**

National Disability Services (NDS) is the Australian peak body for non-government disability services. Its membership includes more than 600 not-for-profit organisations, which collectively operate several thousand services for Australians with disabilities. NDS has offices in every State and Territory. Its purpose is to increase the capacity of its members to provide efficient, effective and high quality services; and to influence governments to provide a policy environment that is responsive to the needs of people with disability and their service providers.

[www.nds.org.au](http://www.nds.org.au)



### **The National Roundtable of Nonprofit Organisations**

The Roundtable is an independent, non-political organisation dedicated to enhancing the extraordinary work and effort undertaken by nonprofit organisations in Australia. Formally constituted in 2006, the Roundtable is the first attempt in Australia by the nonprofit sector in all its diversity to come together as one body. The mission of the National Roundtable for Nonprofit Organisations is to lead by being an effective voice on common and shared issues affecting the contribution, performance and viability of nonprofit organisations in Australia

[www.nonprofitroundtable.org.au](http://www.nonprofitroundtable.org.au)

## Network SA

Network SA Resource, Advisory and Management Services Inc. is a non-government support and advisory service for all types of child care services in South Australia. We are a cross-cultural agency, providing specialised support to Aboriginal services as ARMSU (Aboriginal Resource & Management Support Unit) and generalised support to all services as Network SA.

We provide advice, resources and training about governance / management committees, staffing, policy development, budgeting, planning, resources / equipment, activities / programming and negotiation. We also support the representation of Aboriginal children's services on decision-making and policy making bodies and provide Aboriginal cultural awareness training to mainstream services.

[www.networksa.org.au](http://www.networksa.org.au)

[www.ipsusa.org.au](http://www.ipsusa.org.au)

## New Zealand Federation of Voluntary Welfare Organisations

The New Zealand Federation of Voluntary Welfare Organisations is an active network of social service organisations. It has been active over four decades and has a membership base of more than 130 organisations. The Federation's mission is to inform, inspire and advocate for a thriving voluntary welfare sector in Aotearoa, New Zealand. Two of the Federation's key publications are New Dialogue and Law Scene. The Federation provides a unique opportunity to be involved with strengthening community services and increasing the influence and power of the sector.

[www.nzfvwo.org.nz](http://www.nzfvwo.org.nz)

## RSPCA QLD

The Royal Society for the Prevention of Cruelty to Animals Queensland Inc. is the state's leading animal welfare authority. It is also the oldest animal welfare authority in Queensland. The Society is a non-Government, registered animal welfare charity, with powers to enforce an Act of the Queensland Parliament - The Animal Care and Protection Act 2001, which was proclaimed on March 1, 2002.

RSPCA Old Inc. supports RSPCA Australia's belief that the welfare of an animal includes its physical and mental state and that good animal welfare implies both fitness and a sense of well-being.

[www.rspcaqld.org.au](http://www.rspcaqld.org.au)





**BDO Kendalls**

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