

# Not-for-profit fraud

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## BDO Not-for Profit Fraud Survey 2010

The not-for-profit (NFP) sector is quite significant to the economy and recent reported cases have raised questions about the extent of fraud in this sector. There are over 700,000 NFPs across Australia and New Zealand, with a combined income of \$76 billion, holding approximately \$138 billion in assets and contributing approximately 4.1% to GDP. The sector covers a diverse range of organisations in areas such as: culture and recreation, education and research, health, social services, environment, development and housing, law and politics, philanthropy, religion and business and professional associations.

There is concern about the damaging effects fraud can have on NFPs. The community already has questions about what portion of public and donated funds actually benefit the intended recipients. Reports of fraud can affect the community's willingness to donate funds, but also reduce NFPs' ability to obtain funding and grants from various agencies.

Responses were received from 272 organisations in Australia and New Zealand. Eighty-nine percent of respondents see fraud as a problem for the NFP sector. However, only 14% see fraud as a problem for their own organisation.

Respondents reported a low incidence of fraud (15% had experienced fraud in the past 2 years), much lower than that reported in surveys of large public and private organisations (45% of respondents, KPMG Fraud Survey 2008). NFPs with higher turnover had a proportionally higher incidence of fraud.

Respondents also provided details of their single largest fraud. The most common fraud types were cash theft. Most frauds were detected through strong internal controls and tip-offs (from internal and external parties).

The most common fraudster in NFPs was in his/her thirties/forties and holding a paid non-accounting position. There was a low incidence of fraud by volunteers (only 12% of cases). The principal motives for the frauds were financial pressure, gambling and maintenance of lifestyle. Generally NFPs were not inclined to report fraud to the police, for fear of adverse publicity and loss of funding.

The reported large frauds were also low in value compared with other studies, with an average value of \$26,132. The average fraud amongst large public and private organisations was \$291,515 (KPMG Fraud Survey 2008). Most NFP frauds were detected within ten months, thereby limiting their value.

The main lessons for the NFP sector are for the Board to practice strong governance and risk management, establish a fraud control policy, implement and promote a strong ethical culture through a code of conduct, establish a whistle-blower policy and establish and monitor internal controls.

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<http://www.usq.edu.au/acsbd/projects/nfpfraudsurvey>