

Submission on *Consultation on regulations for the Incorporated Societies Act 2022*

Your name and organisation

Name	
Organisation (if applicable)	Canterbury Aero Club
Contact details	

[Double click on check boxes, then select 'checked' if you wish to select any of the following.]

The Privacy Act 2020 applies to submissions. Please check the box if you do not wish your name or other personal information to be included in any information about submissions that MBIE may publish.

MBIE intends to upload submissions received to MBIE's website at www.mbie.govt.nz. If you do not want your submission to be placed on our website, please check the box and type an explanation below.

I do not want my submission placed on MBIE's website because... [\[Insert text\]](#)

Please check if your submission contains confidential information:

I would like my submission (or identified parts of my submission) to be kept confidential, and **have stated below** my reasons and grounds under the Official Information Act that I believe apply, for consideration by MBIE.

I would like my submission (or identified parts of my submission) to be kept confidential because... [\[Insert text\]](#)

Responses to questions

Part 2 of the discussion document: section 254

	Matter	Question
1	<i>Prescribing information that must be included or provided</i>	Do you have any comments on MBIE's proposals regarding regulations under section 254(1)(a)?
	No	
2	<i>Prescribing the manner in which things must be done</i>	Do you have any comments on MBIE's proposals regarding regulations under section 254(1)(b)?
	No	
3	<i>Authorising the Registrar to determine the manner in which things must be done</i>	Do you agree with MBIE's proposal that no regulations should be made at this stage under section 254(1)(c)?
	Yes	
4	<i>Declaring persons to be, or not to be, officers</i>	Do you agree with MBIE's proposal that no regulations should be made at this stage under section 254(1)(d)?
	Yes	
5	<i>Prescribing circumstances related to independent committee members</i>	Do you have any comments on MBIE's proposals regarding regulations under section 254(1)(e)?
	No	
6	<i>Prescribing jurisdictions whose officer disqualifications we will recognise</i>	Do you have any comments on MBIE's proposals regarding regulations under section 254(1)(f)?
	No	

7	<i>Prescribing the types of changes in officer information that must be notified</i>	Do you have any comments on MBIE's proposals regarding regulations under section 254(1)(g)?
	No	
8	<i>Regulating constitutional provisions on conflicts of interest</i>	Do you agree with MBIE's proposal that no regulations should be made at this stage under section 254(1)(h)?
	Yes	
9	<i>Prescribing societies that can restrict general meeting attendance to delegates</i>	Do you have any suggestions regarding regulations that should be made under section 254(1)(i)?
	No, it greatly depends on those societies whose membership is of a size where the regulation may apply to them. We would think that the vast majority of societies would be worried about reaching a quorum rather than how to manage the number of members who may attend a general meeting.	
10	<i>Defining the term 'total current assets'</i>	Do you have any comments on MBIE's proposals regarding regulations under section 254(1)(j)?
	We suggest alternative wording as follows: <i>"total current assets means total assets excluding fixed assets, where fixed assets are those items of property, plant, and equipment which are not the subject of a contract of sale with settlement date to occur within 12 months after the society's balance date"</i> This provides a more definitive statement than <i>"not expected to be sold"</i>	
11	<i>Prescribing additional requirements for the financial statements of small societies</i>	Do you agree with MBIE's proposal that no regulations should be made at this stage under section 254(1)(k)?
	Yes	
12	<i>Determining the class of society that must have its financial statements audited</i>	Do you have any comments on MBIE's proposals regarding regulations under section 254(1)(l)? For example, do you agree that focusing on the proportion of societies that should be captured is appropriate?

What is the harm which an audit is intended to prevent / protect against?

An audit provides very little value to most organisations, especially where financial statements are prepared by a chartered accountant. There is a general misconception about what an audit achieves, particularly around the ability to detect fraud. An audit generally carries a disclaimer for any liability for not identifying fraud. The audit is more about checking the accounting principles and practices used by the society.

Canterbury Aero Club Inc is a society with significant investment in aircraft, many of which have a replacement cost of NZ\$800,000 or more. It follows that a prudent approach to asset protection would ensure that the aircraft are insured. The loss of \$800,000 would have a very serious impact on the balance sheet. The audit of our accounts did not include a question on whether we held insurance or on the nature or extent of it.

We feel that Regulations which impose fraud prevention obligations (eg two approvers of expenditure over a specified sum and perhaps that society members, at an AGM, be required to be informed of and ratify the society's insurance policy and practices) would be more practical and effective measures to prevent fraud and provide assurance to members than would a blanket requirement for audit.

The Cost of an Audit

The Rules of our society, which has existed since 1938, had, for very many years, required an annual audit of the accounts. At our 2021 AGM, we removed the requirement for an audit because:

1. Each audit was invoiced to the Club at approx. \$20,000 and was likely to increase to \$25,000;
2. The audit would not identify fraud (as noted in the preceding section on harm); and
3. Audits in recent years had given the impression of being 'cookie-cutter' reports, often using identical reporting to that of the previous year.

\$20,000 to \$25,000 is a significant expense for our society and we felt that it was not money well spent on behalf of members.

Most accountants won't touch audit these days because the compliance requirements are too great. This leaves audit work largely to the big four accounting firms and their very high fees.

We are also very concerned whether there is sufficient capacity in the sector to take on the extra audit work which the Regulations will impose on some societies. We believe that this will result in audit firms pricing their audit fees at an even higher level than they are already because they don't need the work, but will choose to take it on if it's very profitable. This is not a scenario which societies that are tight for funds, and largely run by volunteers, should be exposed to.

Lastly, apart from the fee, an audit imposes significant time demands on management members of the society. In our experience, a society will incur an equal cost in staff time and resources devoted to the audit. Volunteers are generally not available to assist with audit queries. Furthermore, the audit firm's personnel assigned to the engagement are almost always new graduates with minimal supervision and who often have close to 100% turnover from year to year.

The Public Interest

Charities have a lower audit requirement threshold because the taxpayer rebates a third of all donations. There is therefore greater public interest in making sure the reporting is correct. The charity threshold is not an appropriate guide to determining whether a non-charitable

	<p>society should have an audit because the taxpayer concessions for societies that are not charities are minimal. Many are taxed in the same way as companies, so the audit threshold should be higher.</p> <p>Ideally there would be the same very high revenue and asset definitions of a large society as there is for companies. If the threshold is lower, there should be an opt out provision as there is for medium size companies with 10 or more shareholders.</p> <p>Once the audit threshold is set by Regulation, it is unlikely to be reviewed for many years and inflation will push more and more societies over the threshold over time.</p> <p>The Members' Interest</p> <p>The members of our Club are interested in learning to fly, then taking part in flying activities using Club aeroplanes. They are largely not interested in compliance with accounting standards. The financial reports made available to members each year need to be simple and understandable. The members want to know if the Club is in good heart - does it have sufficient money to maintain our planes, buy new ones and look after the airfield we lease and are responsible to maintain. They will be very concerned to see in the accounts a large expense for an audit which adds no value to the Club other than to ensure its compliance with Regulations. We expect that there will be many societies in the same boat, either now or over time.</p> <p>The Threshold</p> <p>For the reasons set out above, we believe that the threshold should be set at not less than \$7M expenses averaged over the last two financial years.</p>	
13	<i>Setting infringement fees</i>	<p>Do you have any comments on MBIE's proposals regarding regulations under section 254(1)(m)?</p> <p>No</p>
14	<i>Prescribing the information to be included in infringement and reminder notices</i>	<p>Do you have any comments on MBIE's proposals regarding regulations under section 254(1)(n)?</p> <p>No</p>
15	<i>Removal and restoration of societies from the register</i>	<p>Do you have any comments on MBIE's proposals regarding regulations under section 254(1)(o)?</p> <p>No</p>
16	<i>Prescribing certain matters relating to surplus assets</i>	<p>Do you have any comments on MBIE's proposals regarding regulations under section 254(1)(p)?</p> <p>No</p>

17	<i>Prescribing procedural requirements for surplus asset 'resolutions'</i>	Do you agree with MBIE's proposal that no regulations should be made at this stage under section 254(1)(q)?
	Yes	
18	<i>Prescribing how documents must be served on a society</i>	Do you have any comments on MBIE's proposals regarding regulations under section 254(1)(r)?
	No	
19	<i>Prescribing how documents must be served on a person</i>	Do you have any comments on MBIE's proposals regarding regulations under section 254(1)(s)?
	No	
20	<i>Prescribing matters relating to the incorporated societies register</i>	Do you have any comments on MBIE's proposals regarding regulations under section 254(1)(t)?
	No	
21	<i>Specifying matters concerning conversion into an incorporated society</i>	Do you have any comments on MBIE's proposals regarding regulations under section 254(1)(u), (v) or (w)?
	No	

Part 3 of the discussion document: section 254

	Matter	Question
22	<i>Setting fees for the performance of functions or the exercise of powers</i>	Do you have any suggestions on regulations that should be made under section 255(1)(a)?
	Fees should be low to moderate to recognise the large number of societies with limited finances	
23	<i>Setting late fees</i>	Do you have any comments on MBIE's proposals regarding regulations under section 255(1)(b)?
	They need to be reasonable and in keeping with the intent of their imposition	

24	<i>Setting other fees</i>	Do you agree with MBIE's proposal that no regulations should be made at this stage under section 255(1)(c)?
	Yes	

Part 4 of the discussion document: section 254

	Matter	Question
25	<i>Providing that certain rules apply</i>	Do you agree with MBIE's proposal that no regulations should be made at this stage under section 256(1)(a)?
	Yes	
26	<i>Providing that certain legislative rules do not apply</i>	Do you agree with MBIE's proposal that no regulations should be made at this stage under section 256(1)(b)?
	Yes	
27	<i>Prescribing matters for the purposes of Part 1 of Schedule 1</i>	Do you have any comments on MBIE's proposals regarding regulations under section 256(1)(c)?
	The proposals seem reasonable	

Other comments

Thank you for the proposals document and the template for response. Our most significant concern is the Regulation regarding audit and we urge major reconsideration.
