



Competition, Trade and Investment Branch  
Ministry of Business, Administration and Employment  
PO Box 1473  
WELLINGTON

Auditing and Assurance for Larger Registered Charities

Dear Sir/Madam

I am pleased to make a submission in response to the discussion paper released by MED in April 2012 on auditing and assurance for larger registered charities. This submission is made on behalf of the six Roman Catholic Bishops in New Zealand.

Any questions on this submission should be directed to Trish McAuliffe, Director Finance, Archdiocese of Wellington. Trish's contact details are [t.mcauliffe@wn.catholic.org.nz](mailto:t.mcauliffe@wn.catholic.org.nz) , phone 04 496 1758.

Kind regards

A handwritten signature in blue ink, appearing to read "Paul C Bayliss".

**Paul C Bayliss**  
**General Manager**  
**Archdioceses of Wellington**

**On behalf of:**

The Roman Catholic Archbishop of Wellington

The Roman Catholic Bishop of Auckland

The Roman Catholic Bishop of Hamilton

The Roman Catholic Bishop of Palmerston North

The Roman Catholic Bishop of Christchurch

The Roman Catholic Bishop of Dunedin

Question	Response
<p>1. Do you have any comments on the description of the problem definition?</p>	<p>Areas not covered in the description of the problem definition that are of particular interest are:</p> <ul style="list-style-type: none"> <li>• Section 44 of the Charities Act enables the Charities Commission to treat an entity and affiliated or closely related entities as a single entity. Several dioceses of the Catholic Church in New Zealand have taken advantage of this provision to register the Diocese (including parishes) as a single charitable entity. However, this grouping does not, in our view and the view of our Auditors, meet the definition of a group for control purposes under IFRS standards. As PBEs are currently required to refer to the IPSAS definition of control it is our submission that the registered charity is not a group that requires consolidation under the proposed IPSAS standards. Therefore it is our submission that any audit requirements should relate to the accounting definition of an entity not the registration as a Charity.</li> <li>• In the case of Catholic dioceses both Civil Law and Canon Law impact the understanding of the entity. Parishes with the Catholic Church are separate "juridic" persons. As such parishes are independent in their financial operations. It is our submission that each parish be able to keep financial records under the proposed framework for NFPs in accordance with the level of expenditure that the parish incurs and to meet any audit and assurance requirements in relation to its status as a charity according to that level of expenditure.</li> <li>• The analysis of the stakeholders who are interested in the audit of information does not seem to differentiate between the charities that have donors who are closely associated with the organisations, such as parishioners and those who are more remotely interested in a charity that operates at arms length from the person making the donation. It also appears that the government is a key stakeholder wanting charities to have audited financial statements, at an increased cost to charities. If this is the case this needs to be clearly stated.</li> <li>• We do not support false accounting or any attempt to misrepresent the position of a charity. We agree that good financial information is important for smaller charities. However, it is not surprising to us that charities are not preparing financial statements in accordance with NZ IFRS or NZ GAAP as there is no requirement for most Charities to do so. Smaller entities such as parishes are preparing financial statements that meet the reporting needs of their parishioners. Generally volunteers or those working in support of the parish prepare the accounts. Often accounts are prepared on a cash basis as this is the meaningful basis for the parish. We acknowledge that many parishes will need to change the basis of their accounting to the simple accrual requirement on the introduction of the recently agreed framework.</li> </ul>
<p>2. Do you have any comments on the description of the objective?</p>	<p>We support the requirement for each entity that is part of a registered charity to prepare financial statements in accordance with GAAP as it applies in New Zealand to the charitable sector. However, we consider that for reporting under the Charities Act the entity and any affiliated entity should be assessed to establish whether the accounts needed to be consolidated under IPSAS.</p>

	<p>We support the requirement for entities to be subject to audit or assurance taking into account the cost/benefit trade off of assurance. However, our view is that the size of entity that should be subject to an assurance requirement is too low as set out in the consultation document and the benefits of assurance do not outweigh the costs at the level proposed.</p> <p>We consider that larger reporting groups within charities should be required to have an audit engagement, however see the later comments on the level that we consider large. We consider that the definition of the entity should be based on IPSAS requirements to consolidate.</p> <p>We agree that there should be a tiered approach.</p> <p>We consider the measure that determines whether an entity needs to have an assurance engagement should be operating expenditure. This is consistent with the measure that has been selected for the framework. We consider that the same definition of operating expenditure should be used for both the framework and the requirement for assurance. We note however, that for many parishes that have previously prepared cash accounts the introduction of accrual accounting will result in depreciation being recorded which will increase expenditure. However, as major building works will be capitalised this will also have the effect of smoothing expenditure over years.</p> <p>We consider that where assurance is required that it should be carried out by a suitably qualified accountant. We consider that this should include accountants who are retired and those who carry out audits on a voluntary basis.</p> <p>We consider that the value of other assurance engagements is reduced if the person carrying out the assurance engagement does not have the skills and experience required for the assurance engagement to add value both for the preparer of the financial information and the reader of the financial information.</p> <p>Yes –however, see our comments on the level that we consider large.</p>
<p>3. Do you have any comments on the description of the options?</p>	<p>We consider that there should be a tiered approach so that “less large” charities had the option of selecting a review engagement. We agree with the view of MED that the New Zealand situation does not warrant the establishment of the independent examiner.</p> <p>In our experience there remains a lack of understanding about audit. If review engagements are to be an option for charities, funders, the public and accountants performing review engagements are all going to need to be clear about what a review engagement is and is not. In particular charities may seek review engagements to reduce the cost of assurance. Review engagements may not be cheaper than audit for charities and therefore not be of any financial advantage, while providing a lower level of assurance.</p> <p>We agree that operating expenditure should be the measure, and that the same criteria should exist as will govern</p>
<p>4. Do you consider that large charities should be required by legislation to have an assurance engagement completed?</p>	<p>We consider that there should be a tiered approach so that “less large” charities had the option of selecting a review engagement. We agree with the view of MED that the New Zealand situation does not warrant the establishment of the independent examiner.</p> <p>In our experience there remains a lack of understanding about audit. If review engagements are to be an option for charities, funders, the public and accountants performing review engagements are all going to need to be clear about what a review engagement is and is not. In particular charities may seek review engagements to reduce the cost of assurance. Review engagements may not be cheaper than audit for charities and therefore not be of any financial advantage, while providing a lower level of assurance.</p> <p>We agree that operating expenditure should be the measure, and that the same criteria should exist as will govern</p>
<p>5. Assuming that mandatory assurance was to be introduced for large registered charities do you consider that</p> <p>(a) All large registered charities should be required to have an audit completed or</p> <p>(b) That “less large” charities should be required to have an audit or a review completed and “more large” charities should be required to have an audit completed?</p>	<p>We consider that there should be a tiered approach so that “less large” charities had the option of selecting a review engagement. We agree with the view of MED that the New Zealand situation does not warrant the establishment of the independent examiner.</p> <p>In our experience there remains a lack of understanding about audit. If review engagements are to be an option for charities, funders, the public and accountants performing review engagements are all going to need to be clear about what a review engagement is and is not. In particular charities may seek review engagements to reduce the cost of assurance. Review engagements may not be cheaper than audit for charities and therefore not be of any financial advantage, while providing a lower level of assurance.</p> <p>We agree that operating expenditure should be the measure, and that the same criteria should exist as will govern</p>
<p>6. Which measure of measures should be used for</p>	<p>We agree that operating expenditure should be the measure, and that the same criteria should exist as will govern</p>

<p>determining whether assurance is required and, if these are tiers, for setting the cut-off point between audit and review?</p>	<p>when an entity moves up or down a tier in the accounting framework when an entity's expenditure reduces or increases.</p>
<p>7. Do you favour Option A, Option B (as set out in paragraph 49) or another option in relation to assurers' qualifications?</p>	<p>Option B. However, see comments on level of expenditure before assurance is required. We acknowledge that many funders require audits and often the funding arrangement does not include sufficient funding to meet the cost of audit.</p> <p>If the level that a charity is considered large stays at or about the levels in the consultation document we then support option A and non accountants being able to carry out the engagement. However, we would question the familiarity of this person with accounting standards and note that if they are not an accountant they are not required to operate in accordance with NZICA requirements.</p> <p>We note that parishes who have expenditure at the levels currently proposed will struggle to meet the cost of audit or assurance as many are operating at a deficit and facing a number of significant increases in costs outside their control, not the least being significant increases in insurance premiums.</p>
<p>8 What are your views on the tentative proposal for all registered charities with annual operating expenditure of \$300,000 or more to have an audit completed and annual operating expenditure of \$200,000 - \$300,000 to have a review of an audit completed.</p>	<p>We consider that an accounting entity (see earlier comments) should be required to have an audit when it meets the requirement to report in tier 2 or above of the framework. That is the expenditure is over \$2.00 million or the entity is an issuer and required to meet tier 1 requirements.</p> <p>We consider that an audit or review should be required of all entities that have expenditure over \$500,000 or as required by funders or their constitution.</p>
<p>9. Do you think that there should be a mechanism to increase the dollar amounts from time to time to counter the effects of inflation.</p>	<p>If the requirement is linked to the tiers in the framework we consider that any change in tiers should result in a change in audit requirements. We consider that some allowance has to be made for entities that move from one level to another</p>
<p>10. Do you have any views on the Ministry's estimates of costs and benefits?</p>	<p>The Ministry's estimates of costs and benefits seem to be based on each charity being only one entity and do not seem to take into account, in the same way that a regulatory compliance statement would, the costs to entities of:</p> <ul style="list-style-type: none"> <li>• Engaging an auditor</li> <li>• Preparing for audit</li> <li>• Working with auditors over the period of an audit</li> </ul> <p>For example the Archdiocese of Wellington currently prepares and has audited consolidated financial statements in accordance with NZ IFRS as it applies to a PBE for the parent and group as defined in accounting standards. Parishes, which are part of the registered charity do not have their accounts audited, although some parishes may have a review.</p>

	<p>There are 47 parishes in the Archdiocese, if each of these parishes were required to have an audit or review the cost of compliance would be significant. Other dioceses have also confirmed that a number of the parishes in the diocese would meet the level of requiring assurance if the levels in the proposal are confirmed.</p> <p>Many less experienced preparers of financial statements are also not as familiar with the normal processes that either an audit or review follow. This has an impact on audit firms undertaking this work. An audit engagement with many smaller charities where preparers are not as familiar with audit processes is likely to result in the audit firm spending longer than anticipated or planned for. Alternatively the cost of audit or review will be higher than the estimates in the consultation document.</p> <p>We query whether or not audit firms have been approached to confirm that they would continue to charge this level of fee in the future given that those preparing charities financial statements may not be available during normal working hours to answer an auditors queries. We also query that the level of fees set out will see audit firms recovering their costs.</p> <p>Audit work will often not be able to be carried out at the premises of the parish as often parish accounts are not prepared at the parish office. We suspect that this will also be an issue with other smaller charities.</p> <p>Entities may talk to their auditors, however entities are unlikely to change if a review engagement is not cheaper than an audit engagement.</p> <p>Combination of change in framework and assurance requirements will present many challenges for the not for profit sector.</p> <p>Auditors responsibilities if smaller entities who form part of a registered charity are not audited or reviewed but overall charity audited.</p>
<p>11. Do you consider that introducing a review requirement into law could encourage some charities that are currently having an audit carried out to switch to a review?</p>	
<p>12. Do you have any other comments?</p>	