

About the ASB Community Trust

The ASB Community Trust (“the Trust”) was formed in 1988 through the creation of a trust deed in compliance with the Trustee Banks Restructuring Act 1988. Community Trusts formed under the auspices of the Trustee Banks Restructuring Act are subject to the Community Trusts Act 1999. Section 13(1) of the Community Trusts Act requires a Community Trust to comply with the Financial Reporting Act 1993 as if it were a reporting entity within the meaning of section 2 of that Act.

The Trust makes grants to qualifying entities in the Auckland and Northland region. Annually these grants total between \$30 million and \$40 million. Between 1,000 and 1,500 grant applications are assessed in any year.

The Trust is not required to be a registered charity as its tax status is conferred under the Income Tax Act. Its subsidiary company, ASB Community Trust Charitable Purposes Limited, is a registered charity.

Q1. Do you have any comments on the description of the problem definition?

We can confirm from our review of financial statements submitted to the Trust by community organisations in support of grant applications that the standard of financial reporting varies considerably. Our observations reflect the findings of Dr Sinclair’s research. Poor quality financial reporting hinders the effective assessment of the financial viability and reflects adversely on the applicant organisation’s governance oversight.

We note that the problem definition is limited to charities registered under the Charities Act. From time to time grants may be made to community organisations that are not registered charities. These organisations may be incorporated societies, companies, or non-registered charitable trusts. Over time organisations registered under these legislative provisions should be brought into line with the requirement to report under GAAP, and where appropriate with similar levels of assurance performed on their financial statements.

Q2. Do you have any comments on the description of the objective?

We support the objective set out in paragraph 20 of the discussion paper

Q3. Do you have any comments on the description of the options?

The options of an audit for large organisations and a review for “less large” organisations are appropriate. For small organisations the requirement for financial statements to be compiled by a Chartered Accountant, while not necessarily increasing the level of assurance provided by an audit or review, would add to the credibility of the information disclosed in the financial statements.

Q4. Do you consider that large charities should be required by legislation to have an assurance engagement completed?

Yes. This will provide assurance that the financial reporting standards (GAAP) have been applied in the preparation of the financial statements

Q5. Assuming that mandatory assurance was to be introduced for large registered charities, do you consider that (a) all large registered charities should be required to have an audit completed or (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?

Option b

Q6. Which measure or measures should be used for determining whether assurance is required and, if there are to be tiers, for setting the cut-off point between audit and review?

Annual revenue is not appropriate because of its variability ie special fundraising for a specific project or capital asset would skew the level of income in one income year.

Our preferred measures for determining whether or not assurance is required is a mix of annual operating revenue or total assets – refer to comments in answer to question 8.

Q7. Do you prefer Option A, Option B (see paragraph 49) or another option in relation to assurers' qualifications?

Option b

Q8. 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 or an audit completed?

We suggest a three tiered approach:

- Charities with annual operating expenditure greater than \$500,000 or assets of \$2 million or more in value would be required to have an audit completed
- Charities with annual operating expenditure between \$250,000 and \$500,000 would be required to have either a review or an audit completed
- Charities with annual operating expenditure between \$40,000 and \$250,000 would be required to have their financial statements compiled by a Chartered Accountant. (The \$40,000 starting point is in line with the PBE reporting requirements for accrual accounting).
- An audit would be required by a charity where this was stipulated by its constitutional document.

Currently the Trust does not require audited financial statements where the grant application is for less than \$40,000 and the organisation's constitution does not require an audit.

Q9. Do you consider that there should be a mechanism for the government to increase the dollar amounts from time-to-time to counter the effects of inflation?

Yes – at three yearly intervals and in line with upward movement of the Consumer Price Index

Q10. Do you have any views on the Ministry's estimates of costs and benefits?

We do not have any comment

Q11. 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?

We do not have a view

Q12. Do you have any other comments?

Thank you for the opportunity to comment