capital accounting associates ltd

1580jd
Friday, 15 June 2012

Assurance for Larger Registered Charities,
Competition Trade and Investment Branch
Ministry of Economic Development
P O Box 1473
WELLINGTON 6140

Dear Sir,

Discussion Paper

I wish to comment on some aspects of your paper as follows:-

Audit

As a result of the Quality Control activities of New Zealand Institute of Chartered Accountants coupled with increasing costs of Professional Indemnity Insurance.

Many if not most small firms no longer undertake audits. This means that audits are generally undertaken by larger accountancy firms who specialise in this area of practice.
Accordingly few are willing to undertake it on a pro bono or discounted basis because of the audit risks involved.

The indicative cost of audit used in your paper in my view significantly understates the actual audit costs going forward.

The smaller the charity, the less robust is likely to be its systems of internal control because of the use of volunteers or smaller infrastructure. The absolute and relative cost of audit will therefore be much higher for such charities.

Almost certainly many of these audit reports would also be "qualified" as not providing the degree of certainty required or lacking in aspects of internal control because of small or volunteer infrastructure and therefore would be of no practical use.

More than just bean counting

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Reviews

These could be of use in some cases but the minimum terms of the review would need to be legislated or regulated.

Assurance

The fundamental questions that need to be asked and addressed are:-

1. to whom is the charity is accountable, and
2. to whom the assurance needs to be given?

In many cases, assurance needs to be given to donors and audit is effectively already a trust board obligation to satisfy those donors without regard for the need for a mandatory legislative requirement. If there is no audit, then there are no donations.

Assurance in the public interest has merit but only where the public would have an expectation of assurance because of the scale of the charity.

In other cases assurance in my view is not necessary.

Annual Accounts

Setting standards for presentation is appropriate to get consistency. It is remarkable that this was not set earlier.

For smaller charities requirements however need to be simpler – for example along the lines of "exempt companies" under the Financial Reporting Act.

Threshold

The definition of "large" in this process is key. In my view it needs to be significantly larger than suggested because of absolute and relative costs of assurance and lack of value to stakeholder groups or the public.

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In my view it should be at least $1m pa of annual income to require mandatory audit. Reviews could be required if income is greater than, say, $500,000

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