



20 July 2012

Assurance for Larger Registered Charities
Competition, Trade and investment Branch
Ministry of Economic Development
PO Box 1473
Wellington
NEW ZEALAND

By email: financialreporting@med.govt.nz

Office of the Chief Executive
Alex Malley FCPA

CPA Australia Ltd
ABN 64 008 392 452

Level 20, 28 Freshwater Place
Southbank VIC 3006
Australia

GPO Box 2820
Melbourne VIC 3001
Australia

Phone +613 9606 9689

Mobile +61 (0)412 441 821

Email alex.malley@cpaaustralia.com.au

Website cpaaustralia.com.au

Dear Sir/Madam

DISCUSSION PAPER: AUDITING AND ASSURANCE FOR LARGER REGISTERED CHARITIES

CPA Australia welcomes the opportunity to comment on the Discussion Paper: Auditing and Assurance for Larger Registered Charities (DP). CPA Australia is one of the world's largest professional accounting bodies, with a membership of more than 139,000 finance, accounting and business professionals and leaders in 114 countries. Our vision is for CPA Australia to be the global professional accountancy designation for strategic business leaders. We make this submission on behalf of our members and in the broader public interest.

Charities provide a valuable service to the community by undertaking a number of activities for the public benefit. Much of these activities are funded by public money in the form of donations, grants and other government aid such as tax benefits. It is essential that charities remain sufficiently accountable in conducting their charitable activities and obtaining independent assurance on financial reports prepared should assist with this objective.

CPA Australia supports the New Zealand government's plans to introduce assurance of financial reports prepared by larger registered charities. Mandating a tiered structure of financial reporting and assurance should contribute to maintaining the integrity of the sector and its public benefit focus.

We have outlined our comments where relevant to the specific questions raised in the attached Appendix. If you require further information on any of our views, please contact Mr Amir Ghandar, CPA Australia by email at amir.ghandar@cpaaustralia.com.au.

Yours sincerely

Alex Malley FCPA
Chief Executive Officer

cc: A Ghandar

APPENDIX

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

We support a tiered approach to assurance (option b) based on monetary thresholds. The tiers should provide for a suitable level of assurance to be obtained based on the size of the charities determined through monetary thresholds. The users of financial statements of the larger charities are likely to benefit from the high level of assurance that an audit delivers. Similarly a review or limited assurance will provide a commensurate level of comfort to the users of the financial statements of charities that are “less large” (mid-tier).

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

Yes we agree. Large charities can have a significant impact on the community and assurance allows them to demonstrate accountability to their benefactors, beneficiaries and other stakeholders. Larger charities would also normally possess the necessary financial resources to afford assurance services.

5. 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?

As stated above we support a tiered approach to assurance.

6. 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?

Different jurisdictions take different approaches in choosing the measures for determining thresholds for audit and review. For example the proposed legislation for charities in Australia uses a measure based on revenue to determine the thresholds. Whilst we recognise the reasons stated for using a measure based on operating expenditure as the best option, we believe it is more critical to ensure the appropriate level at which the thresholds are set should be based on a wider assessment as we have highlighted in our response to Q8-Q2 below.

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

We prefer Option B. We believe our members can provide a valuable service to the charities sector in New Zealand through the provision of review services to mid-tier charities and accordingly recommend inclusion of members of CPA Australia with CPA status in the list of qualified accountants who are able to provide this service. Inclusion in the list of other qualified accountants from professional bodies of equivalent standing to CPA Australia should ensure that the charities sector can benefit from a sufficiently wide pool of qualified accountants.

CPA Australia recognises the important role our members play in provision of pro-bono services to the charities sector and we have arranged to provide free professional indemnity insurance (PII) cover (that is applicable worldwide) to encourage our members providing such services. We also have in place measures to ensure the competence of members who undertake certain assurance services to the Not For Profits sector.

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 or an audit completed?

- 9. 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?**
- 10. Do you have any views on the Ministry's estimates of costs and benefits?**
- 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?**
- 12. Do you have any other comments?**

It is not clear from the DP whether the number of charities in Table 8 represents the entire population of charities that have assurance carried out on their financial statements. The threshold for review of \$200k-\$300k appears narrow based on the statistics provided. According to the numbers provided 3556 charities will be audited and 1046 charities will have a review. It is common for the population to reduce when travelling up the tiered strata for financial reporting or assurance, and this does not appear to occur in this analysis. For example, a similar three-tiered structure of assurance is being proposed through legislation in Australia. The proposals require a review for charities in the mid-tier with income between \$250k (AUD) and \$1m (AUD), with an audit for the top-tier and no assurance for the bottom-tier. Statistics provided by the Australian Taxation Office (ATO) indicates that from a total of approximately 55,000 registered charities, 54% will belong to the bottom-tier, 35% to the mid-tier, and 11% in the top-tier.

We believe for the reasons stated below, an assessment based on costs alone may not provide appropriate values for setting the thresholds.

- Other costs are likely to be incurred, for example, charities who have not had assurance conducted previously may have to incur additional costs in implementing controls and other systems to support the preparation of financial reports that will be independently assured. Also, there will be ongoing costs for the maintenance of these systems.
- As stated in the cover letter a number of our members provide pro-bono services to the charities sector, and the provision of such services by accountants should be taken into account as well.
- As stated above in response to Q2, it is necessary to consider the impact of benefits derived from assurance as well in determining what level of assurance is required. We do not believe the DP analyses or assesses the impact of this.