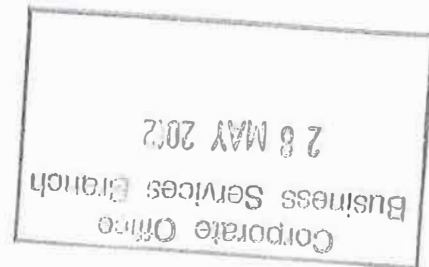


23 May 2012

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



Dear Sirs

We have carried out audits on a variety of charitable organisations which include Maori Trusts and Trading Trusts. In most cases these clients were in receipt of funding from Central Government, Local Councils and a variety of donors, many of which distribute gaming profits.

Our submission will respond to the questions raised in the discussion paper but there are several areas where we have experienced serious concerns in our past audits.

1. Governance of Charitable Organisations

In many cases the governing body lacked any commercial experience or had any skills in financial responsibility.

2. Donors failed to check applicant's ability to provide suitable financial management before making a grant.
3. Donors failed to seek and receive confirmation that grants had been properly applied.
4. Donors, bankers etc. failed to respond to serious qualifications in audit reports. This raises the question as to whether such organisations required a donee to provide audited financial statements or exercised any quality reviews of accounts that were provided.

We note in your Discussion Paper that Government will issue financial reporting standards for registered charities. This is commendable as long as charities governing bodies take their responsibilities seriously and there are serious penalties for those who don't.

- Question 1. Agree with the problem definition. At present there are variances in reporting standards or complete lack of any financial reporting.
- Question 2. The objective is admirable as it sets minimum accounting standards. Assurance audits will need to be conducted by people with a sound knowledge of GAAP reporting.
- Question 3. The options are adequately described however any assurance or review audit should include a process of testing that fraud is likely or not likely.

- Question 4. All large charities and charities where donors require an audit should be required to have an assurance engagement completed at a fee commensurate with the work required to be carried out.
- Question 5. Small to medium sized charities could have the option of engaging a negative assurance audit.
- All auditors should be members of NZICA and have recognised audit skills and experience.
- Question 6. Annual operating expenditure should be used to determine whether a charity shall be required to have an assurance or negative assurance audit engagement. There should be defined tiers to determine whether a review engagement would be acceptable or a full assurance audit required.
- Question 7. We prefer Option B because this would require the application of recognised audit standards and give a consistent approach from Act to Act.
- Question 8. The suggested tiers of expenditure of \$200,000 to \$300,000 to have a review engagement and expenditure greater than \$300,000 to have an audit assurance engagement would offer clear definition.
- Question 9. There should be a mechanism to increase the dollar amounts from time to time.
- Question 10. The Ministry's estimates of costs and benefits appear to be acceptable however, audit costs can vary depending on the nature of the charities operations and the level of skill of financial management.
- Question 11. A review engagement is currently an option in many cases thus a charity may switch to a review. However if the expenditure tiers were introduced this would make options clearly defined.

Other Comments

Although the proposals outlined in the Discussion Paper are a step in the right direction there appears to be no way of ensuring that audit reports attached to financial statements were subjected to review controls by an independent authority.

In order to retain charitable status annual financial statements are required to be filed with the Charities Commission within six months of a charities balance date. A control system could be introduced to monitor charities conformity with the rules and that any qualifications in audit reports could be subjected to enquiry.

We have had experience where a charity filed their financial statements and an audit report both on an accountant's letterhead but the accounting firm had not compiled or audited these statements. The statements in question were photocopies.

Each year accounting firms could provide to the Commission, Schedules of Compilation Engagements and audit firms provide a Schedule of Audit Review or Assurance Engagements carried out each year. Qualified audit reports could be highlighted to alert the Commission.

We thank you for the opportunity to express our views and if you would like clarification of any of our comments please do not hesitate to get in touch with us.

Yours faithfully
DIXON & CO

A handwritten signature in black ink, appearing to read 'Kit Vdyce', written over a thin horizontal line.

Kit Vdyce
AUDITOR