

18<sup>th</sup> July 2012

Assurance for Larger Registered Charities  
Ministry of Economic Development  
PO Box 1473  
Wellington

By email to [financialreporting@med.govt.nz](mailto:financialreporting@med.govt.nz)

## **Introduction**

The organisations listed in Appendix 1 to this Submission welcome the opportunity to make a submission on the Assurance and Auditing of Larger Charities. Each of these charities has taken positive and meaningful steps to implement the principles of good governance, including financial transparency and probity.

## **General comment**

The undersigned recall that one of the original purposes of the Charities Act was so that community stakeholders could have increased confidence that funds were being correctly applied to the respective charitable purposes. It is the undersigned's view that our stakeholders derive their confidence from having experienced people as Trustees and Elders and clear accountability processes in place, not from an increasingly complex and expensive compliance framework.

## **Specific responses**

<b>Q1</b>	<p>The academic references cited by the paper set out a number of issues such as failing to understand the need for GAAP, inconsistent treatment of transactions and unethical treatment of transactions to disguise true financial positions. In paragraphs 14 and 15 the paper quantifies these as "several examples". Given that we are dealing with 25,000-odd charities, "several examples" would appear to represent an insignificant number of charities.</p> <p>Hence the undersigned believe that the problem has been significantly overstated, and would be concerned if higher assurance requirements were placed on all charities simply because "several" examples of poor practice have been identified. The question needs to be asked "why not simply pursue those "several" charities through existing legal and regulatory mechanisms?".</p>
<b>Q2</b>	<p>The undersigned broadly agrees with the objective. However the undersigned would urge the MED to consider the likely low level of incremental assurance to be gained by imposing additional requirements on charities that have already strived to put sound governance and financial practices in place.</p>
<b>Q3</b>	<p>The undersigned broadly agree with the options, but would make the following comments...</p>

	<ul style="list-style-type: none"> <li>• Revenue is probably the best measure to determinate the degree of assurance required, as this will generally reflect the resources available to contribute to an audit or review.</li> <li>• Rather than subjecting all charities to increased scrutiny regardless of their efforts to implement good governance, a preferred approach would be to provide for the review of those charities which are quite clearly submitting inconsistent or non-compliant accounts or where there is reasonable suspicion of questionable accounting practices.</li> <li>• Charities that are reviewed and determined to be compliant should be relieved of any additional assurance burdens for a stated period, say 4 or 5 years<sup>1</sup>. There needs to be a clear incentive or reward for compliant behaviour, and it is not clear how the proposed options embody that.</li> </ul>
<p><b>Q4</b></p>	<p>The undersigned believe that larger charities should <u>not</u> necessarily be required to have an assurance engagement carried out, and correspondingly also does not believe that a small charity should be exempt simply because it is small.</p> <p>As noted above, the trigger points for increased levels of assurance need to be more evidentially based around such matters as prior establishment of good governance, a lack of inconsistent or suspicious annual returns, and whether funding is received from the government or from the wider public (as distinct from more narrowly defined groups such as a church congregation or residents of a hostel).</p> <p>It is appreciated that these complex criteria are difficult to embody in law, however it is important that charities that have strived for excellent governance are not put to additional assurance burdens. We would therefore urge the MED to not simply latch onto simple criteria that make the legal drafting easy.</p>
<p><b>Q5</b></p>	<p>The undersigned believe that Option (b) would be preferred, but would also comment that a further tier of less invasive assurance tools might be considered as a very broad assessment of whether additional assurance is even required.</p>
<p><b>Q6</b></p>	<p>As noted above, the undersigned believes that annual revenue is probably the best headline measure if any single measure must be chosen.</p> <p>The comments about year-to-year volatility are also noted. This may be of particular relevance to the Northgate Community Trust and similar charities undertaking large one-off building projects that show associated large headline revenues for 1 or 2 years and then settle to a significantly lower level. Provision <u>must</u> be made for the assurance requirements to relax if the charity comes back under the threshold in the future.</p> <p>It is also recognised that those determined to flout the assurance requirements will always find a way to do so. Care must be taken that the significant majority of compliant charities do not face increased compliance costs as part of an effort to target the non-compliant few.</p>

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<sup>1</sup> Similar to how a school or kindergarten that receives a favorable ERO report remains on the 3 year review cycle.

<b>Q7</b>	The undersigned are of the view that if assurance work is to be carried out, it must be done by suitably qualified people as per Option B otherwise it simply dilutes the value of that assurance and the requirement becomes a waste of time. A possible solution to the cost implication noted in Paragraph 49 would be a requirement to undertake assurance every 4 <sup>th</sup> or 5 <sup>th</sup> year.
<b>Q8</b>	<p>The undersigned believes that more suitable thresholds should be \$500,000 for an audit, and \$300,000 to have an audit or review. The undersigned would make the following comments...</p> <ul style="list-style-type: none"> <li>• The MED's description of this issue in terms of operating costs suggests a pre-disposition to using this measure, despite having sought views above.</li> <li>• We would reiterate our previous comments that the threshold for additional assurance should not simply be a headline measure, but rather should be prior evidence of inconsistent or suspicious annual returns.</li> </ul>
<b>Q9</b>	Without a doubt there must be a mechanism for escalating the threshold.
<b>Q10</b>	Certainly for Northgate Community Church and the Northgate Community Trust, the "average cost of an audit" (Column (b), Table 8) represents a significant step up from the \$700 to \$800 per year that is currently paid to have accounts compiled by an external accountant. An increase in accounting and audit fees to the \$3,000 indicated in Table 8 would be most unwelcome, and be a significant distraction from the charitable purposes.
<b>Q11</b>	Providing the option of an audit or a review may well encourage some charities to switch to a review. If we re-focus on the objective of considering additional assurance requirements to identify inconsistent or suspicious financial practices, it would be expected that those charities that are already having audits done would have their affairs in order hence there would be little assurance lost if they moved to a review.
<b>Q12</b>	Refer to General comments above.

## **Appendix 1 – Organisations submitting this submission**

The following organisations are submitting this submission...

<b>Organisation</b>	<b>Charities registration</b>	<b>Approx. turnover</b>	<b>Person for contact</b>
Longview Taurima Trust	CC21757	\$406,000	Phil Caffyn
Northgate Community Church	CC10824	\$88,000	4 Lansbury Court Hamilton 3210 Phone(07) 854-6541
Northgate Community Trust	CC20509	\$178,000	