

**Submission on Auditing and assurance for larger registered charities – Discussion Paper (April 2012).**

Methven Aged Persons Welfare Association Inc (MAPWAI) is a registered charity which operates aged care services (rest home, meals on wheels, rental flats and activities) in the Methven community. Many of these activities are operated as part of government contracts and in larger communities would be operated by “profit orientated” organisations. However in our community these services would be uneconomic if profit was required.

Therefore MAPWAI as an organisation has a “large” operating revenue as defined in this discussion document, however only a very small amount is sourced from donations and/or grants. The association agrees that charities should be legally required to undertake some form of audit or other assurance to ensure that donated funds are being used correctly. However the association does not think the proposed levels relating to operating revenue are the fairest and best way of identifying the charities which should be required to undertake this increased assurance which brings with it significant increased cost.

We have included more comment regarding this in our answers to Questions 6, 10, 11, and 12.

**Q1. Do you have any comments on the description of the problem definition? No**

**Q2. Do you have any comments on the description of the objective? No**

**Q3. Do you have any comments on the description of the options? No**

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

**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? We agree with (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?**

*We consider that using operating expenditure as the measure of determining whether assurance is required is not the correct emphasis required. Income raised from donations, fundraising activities, sponsorships, interest and/or grants over a designed threshold would be more appropriate.*

*The reason behind this suggestion refers to the situation of our organisation and many other not for profit organisations which do not raise larger amounts of money from the above activities but carry out their charitable purpose by providing a service in small community which would not otherwise be available. If these activities were left to the “profit” sector to provide they would not exist as the size of the business make them financially unviable. Methven Aged Persons Welfare Assoc. Inc. provides aged care services to our small community. In last year, MAPWAI had operating expenditure of over \$500,000 but we only received approx \$18,000 in donations and grants. The remainder of our income comes from government contracts and charging fees for the service. The business is only able to survive at its small size because as a charity there is no shareholders requiring a dividend or return on investment. Most years there is little or no surplus from operations and any increase in costs means a decrease in service to our community. In addition to this our organisation is*

*required to be audited by the Ministry of Health on a regular basis and this can include financial scrutiny.*

*We would recommend a multi tier system which would require charities which receive income from donations, fundraising activities, sponsorships, interest or grants of more than \$200,000 to have an accounting review and those receiving more than \$300,000 to have an audit. With a second layer of measurement for those larger organisations which get the majority of their income from other sources. For example those with operating expenses of over \$500,000 being required to have an accounting review and over \$2 million requiring an audit.*

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

*Please see answer to Question 6*

**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*

**Q10. Do you have any views on the Ministry's estimates of costs and benefits?** *We believe that 1.25% of expenditure to be spent on accounting is too high and therefore this threshold need to be adjusted as discussed in Question 6.*

**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?** *Yes our organisation recently changed to a review on the recommendation of our accountants to reduce costs. We believe other organisations will also do this as they would rather spend their money on helping their community than on accountancy.*

**Q12. Do you have any other comments?** *We are also concerned about the reducing numbers of smaller local accountants which provide audit services due to the increasing costs to offer this service. Our organisation had to recently change firms as our previous firm stopped providing audit services (we have now also stopped have audits completed due to the cost.) We believe that this change will put further pressure on the accounting firms which do provide auditing and thus increase the fees charged. This is also a disadvantage for charities based in rural communities as many of the firms providing auditing services are only in the main centres further increasing the costs of accountancy to the rural based charities in travel, postage and phone calls.*

**THANK YOU FOR CONSIDERING OUR COMMENTS ON THIS DISCUSSION PAPER.**