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

Dear Sir/Madam

Assurance for Larger Registered Charities

Discussion paper of April 2012 refers.

This submission is presented on my own behalf as a member of the public concerned about the trend towards light handed regulation of all charities evident in some of the financial reporting options aired in the discussion paper above.

Background to this Submission

My interest is in securing the long term future of a charitable organization which conceivably could escape any obligatory measures of assurance if liberal options set out in the discussion paper are finally adopted.

Relevant data from the most recent annual accounts of an example organization comprising an incorporated society and trusts comprising three registered charities is as follows :

	Charity 1	Charity 2	Charity 3	Total
-Operating expenses	\$73,000	103,000	250	\$176,250
-Investment assets, to secure regular income, comprising shares, bonds and a small permanent short term deposit, 30 parcels in all.	\$265,000	532,000	35,000	\$832,000
- Collections, donations from the public				\$74,000

There may be other organisations with activities sequestered into separate compartments such as trusts, resulting from bequests for specific purposes, each separately registered as a charity. If it can be established that these are related parties then aggregation to assess their scale for determining the appropriate assurance method would be appropriate

Responses to Questions

Q1. The “problem definition “does not appear to recognize the need for “teeth” in imposing consistency in financial reporting and sanctions when there are lapses. What- ever standards are adopted, how these are to be policed, who will impose sanctions and what form these might take needs to be considered.

Anecdotally defalcations and other forms of theft and fraud are not uncommon amongst not for profit organisations. These risks do not appear to be appreciated as a problem in the discussion paper and need to be taken account of in reporting standards . Perhaps the political focus on big picture issues relating to large charities squeezed out consideration of a wider review to make all information supplied by charities for public scrutiny to be subject to some form of assurance.

If funds are collected from the public this is considered to be an essential safeguard. Why this issue in these terms has not previously been attended to and is not included in this review is difficult to understand.

Q2. (a) Agree with para 17c subject to addition of words in italics :

“ To promote charities accountability to the public by providing information about whether funds or assets they have obtained from the public *and other funders and donors are being properly accounted for and are being used effectively and efficiently.*”

Note : “being properly accounted for” when defined for each size of organization is quite explicit and needs to be expressed as it is the forerunner of effective and efficient use.

Q3. The description of the options in paras 22-27 appears OK, but in para 21 the focus should be enlarged to all charities. It is regrettable that there seems to be a tardiness (para 21) in the approach to independent assurance

Explanatory note : This supports an attitude common in non-accounting experienced people who regard audit is at least a questionable expense – believing of course that everyone is honest and does their job properly, that in the accounting processes no mistakes are made nor are there issues which could benefit by professional external confirmation.

It should also be noted that audit and other forms of assurance are of value to the people handling accounting tasks or working in other areas, as a satisfactory outcome can be taken as evidence of their probity and effectiveness on the job, as well as an assurance to members.

The introduction of rules for “ independent examination” based on the UK model amalgamated with features of the NSW model would be an extremely valuable innovation which should be proceeded with forthwith.

In Wellington the Community Accounts Mentoring Service is currently delivering a service of this nature in a responsible but unregulated way. It is understood that mentoring services of one form or another are established in several other centres to help small charities deal with financial and accounting issues. Perhaps on thorough exploration the difficulties foreseen in para 37 on p.14 in adopting the independent examination system may not be as great as forecast.

A tiered approach –audit, review, independent examination determined by scale is considered essential.

Q4. Most certainly, large charities should be required by legislation to have assurance engagements completed.

Strongly recommend that all charities are obliged to have some form of assurance, see Q3 response above.

Q5. Mandatory assurance should not be limited to large charities. This submission supports a tiered basis of requiring assurance, outlined in Q3 above.

Q6. A tiered approach – either audit, review, or independent examination, determined by scale of annual operating expenses OR the value of income earning investment assets OR employee numbers. “Income earning investment assets” should be capable of concise and clear definition eg stocks and shares, a working farm or a fishing boat producing income for a charity would be within this class of asset but a church or the vicar’s car would not.

The affairs of related parties should be aggregated (as in my first page) in determining the tier level and assurance method. The aggregated value should determine the assurance method applied to the individual related parties in such a group.

The three alternative measures of scale are essential to ensure that capital acquired perhaps over a long period and the interests of staff are safeguarded by exposure to outside assurance .

Legislative backing is essential

Q7. Option A is certainly preferable with all registered charities subject to some form of assurance on a tiered basis as in Q6 above. The reportedly high cost of audits carried out by qualified accountants and the unsatisfactory state of financial data filed with the Commission indicates the need for some fresh ideas, hence this opportunity for review is a one off chance to repair unsatisfactory features which have appeared over the years and remained unanswered.

The negative conclusion about independent examiner in para 37 on page 14 is regretted as it seems likely to result in most medium and small charities being exposed without an obligation for any form of assurance. See discussion in Q3 above.

Q8. The tentative proposal is much too light handed.

Recommend that assurance tiers be set based on either – annual operating expenses OR income earning investment assets OR employee numbers (not enough known to develop the numbers further) and that assurance tiers be as follows:

Expenses or Assets as above – exceeding \$ 200,000	Audit
“ “ “ “ “ - from \$25,000 to \$200,000	Audit or Review (1)
“ “ “ “ “ - under \$25,000	Audit or Review or Independent Examination (1)

Note (1) Where alternatives are permissible the charities rules shall be observed.

Q9. Certainly - anomalies in Government charges and levies under various statutes evident in recent years have been attributed to a lack of a provision in the original legislation to provide for periodic incremental increases. The need for large increases say once in a decade should be avoided.

Q10. If registered charities are paying assurance fees at the rates at top of p.21 they have extremely charitable providers of these services.

Q11. Whether or not a charity switches from an audit to a review if either is permissible under the law, depends on the charity's rules, their members attitude to amendment to do so if necessary, the confidence or innocence of leading officers and the reaction of influential members at the AGM

The decision to change from audit to review is likely to hinge on the amount of savings. Accounting firms advise that as the work is substantially done by seniors savings might be limited

Q12. Conclusions

- a. Tightening of the supervision of the financial affairs of registered charities is welcome and strongly supported.
- b. Whether or not it is politically possible to extend the scope of this exercise beyond assurance requirements for larger charities, it would be a definite improvement to take in smaller ones, at least the majority of those registered
- c. The introduction of the role of suitably skilled "independent examiners " is strongly supported.
- d. This would facilitate a three tier system of assurance – audit,review and independent examiner matched with appropriate levels of expense \$/investment assets\$/employee numbers
- e. This paper recommends that all registered charities should be subject to assurance. However setting the amount of \$10,000 (expense etc level as above) as the tipping point above which it is obligatory to enter the assurance scheme may be more practicable and widely acceptable. What the rests should be as expenses etc climb needs to be carefully considered, it is recommended that audit should be obligatory beyond an annual figure of \$200,000.

Yours faithfully



Neal C Schofield