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Assurance for Larger Registered Charities  
Competition, Trade and Investment Branch  
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To whom it may concern: Ministry of Economic Development/Ministry of Business,  
Innovation and Employment

### **Auditing and Assurances for Larger Registered Charities – Discussion paper**

Thank you for the opportunity to provide comment on the *Auditing and Assurances for Larger Registered Charities* discussion paper.

Overall New Zealand Kindergartens endorses changes to auditing and assurance requirements for larger registered charities as a means to improve accountability and transparency.

#### **Kindergarten profile**

New Zealand Kindergartens (NZK) Incorporated, Te Putahi Kura Puhou o Aotearoa, is the umbrella organisation representing twenty-nine regional kindergarten associations covering 435 kindergartens and early childhood education services. Nationwide kindergartens provide early childhood education services for 37,000 enrolled children<sup>1</sup> as well as support for their families and whānau.

New Zealand Kindergartens and its member associations are community-based, not-for-profit organisations. NZK and member associations are Incorporated Societies and registered charitable entities with the Charities Commission.

#### **Auditing and assurances for larger registered charities**

The key issues raised in the discussion paper are:

- whether larger registered charities should or should not be required by legislation to have their financial statements independently audited or reviewed; and
- whether there should be minimum qualifications for auditors.

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<sup>1</sup> Ministry of Education. (2011). Education Counts, *Annual ECE Summary Report*.

While there is no requirement in the Charities Act for the annual financial statements furnished to the Charities Commission to be reviewed or audited, the requirement does exist for some under alternative legislation or regulation.

Kindergarten associations have their financial accounts audited annually. As well as being set out in associations' constitutions and being prudent business practice, it is a requirement by the Ministry of Education of licensed early childhood education services.

Criteria on meeting the regulatory requirements sets out compliance expectations for services around the types of financial reports required, the income thresholds for audited reports, and auditor qualifications and requirements.

The Ministry of Education funding handbook states "All services that have been in operation for a full financial year must provide the Ministry with copies of their audited financial reports."<sup>2</sup> A new income threshold came into effect in January 2011 exempting early childhood education services with an income of less than \$80,000 from providing audited financial reports. Prior to that date all services, regardless of income were required to submit audited financial reports.

The audited reports must be completed by a chartered accountant who is a member of the New Zealand Institute of Chartered Accountants (NZICA) and the accountant must be independent of the services management group or individual completing the financial statements.

The discussion paper did not address or investigate existing financial reporting requirements for charitable organisations receiving government funds. Given the detailed financial reporting requirements for early childhood education services, it seems safe to assume that charitable organisations receiving funds from other government agencies for example the Ministries of Health or Social Development may have similar obligations.

### **Recommendation**

NZK recommends an examination of existing government agency requirements for financial reporting of charitable organisations. A review would establish:

- to what extent charitable organisations are required by statute or regulation to furnish audited or reviewed accounts;
- the common features of those requirements and where they align for example the threshold at which a return is required to be audited; and
- to what extent the range of requirements could be streamlined to ensure consistency of reporting requirements across agencies and for charitable organisations.

A review would establish the nature of the reporting required and the degree of consistency across requirements currently, to inform decisions about changes to the general reporting requirements for charitable organisations. It would provide an opportunity to align thresholds, types of reports required and auditor requirements. The threshold for any new requirement could be set at a level consistent with current practice which many – perhaps most - charitable organisations would readily meet.

Ensuring financial reporting requirements are aligned across ministries and in legislation will promote efficient and consistent systems and practices.

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<sup>2</sup> Ministry of Education Funding Handbook, Chapter 12: Financial Reporting  
<http://www.lead.ece.govt.nz/LeadHome/ManagementInformation/Funding/FundingHandbook.aspx>

Should the review show audit or review requirements are limited to a few sectors or organisations, these could of themselves still provide benchmarks for legislation. Using the ECE sector for example, the threshold for furnishing an audited financial statement could be \$80,000 and a review or audit conducted by a qualified professional.

We believe annual audits for larger charitable organisations promote accountability, accuracy and transparency as well as efficient and effective use of public and community funds. Commissioning an audit from a qualified professional represents a commitment to good governance and management practices and supports sustainable, successful charitable organisations. We support changing auditing and assurance requirements for larger charitable organisations and aligning financial reporting requirements across government agencies.

Sincerely



Clare Wells  
**Chief Executive**

