



NZSTA Submission

on

**Charities Commission
proposed new financial reporting
standards for NFP's**

15 June 2012

Introduction

1. This feedback is presented by the New Zealand School Trustees Association (NZSTA)
2. We can be contacted at NZSTA, PO Box 5123, Wellington, phone 471 6422, fax 473 4706, email lkerr@nzsta.org.nz.
3. NZSTA is an incorporated society registered with the Charities Commission. NZSTA is a larger not-for-profit with some 30 full time staff, and also engaging contracted persons from time to time. Annual operating expenditure is usually in excess of \$M4 a year.
4. NZSTA is a national body representing the interests of, and delivering services to, approximately 2,200 member school boards of trustees (90 percent of the total number). There are approximately 18,000 people serving on approximately 2,460 school boards.
5. This feedback draws on NZSTA's experience as a larger not-for-profit which has been operating successfully for some 23 years, as well as the NZSTAs experience of being subject to full financial audits over the life of the organisation.

NZSTA Response to questions

Q 1: Do you have any comments on the description of the problem definition?

6. NZSTA does not have knowledge of the quality of financial reporting across registered charities. However, we do recognise that the lack of transparency and the difficulty of understanding of charities' financial statements may impact negatively on the credibility and financial viability of charities.

Q2: Do you have any comments on the description of the objective?

7. The objective appears reasonable.

Q3: Do you have any comments on the description of the options?

8. The description of the options appears reasonable.

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

9. Yes. Larger charities should be required by law to have to obtain assurance, and this assurance should be by way of a full audit of their financial state.

Q5:- Assuming that a 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?.

10. What constitutes “large”, “less large”, or “more large” seems to be splitting hairs somewhat. If a charity meets the “large” category (whatever that may set at) then it seems appropriate that the charity should be subject to an annual audit. Below that threshold, a review could apply.

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?.

11. Annual operating expenditure is the most sensible measure for determining whether assurance is required, and for determining the cut-off point between audit and review. In our experience, annual operating expenditure does not vary hugely year by year.

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

12. NZSTA’s preference is for a three tiered approach,

- the top tier requiring audit by qualified auditors,
- the second tier requiring (as a minimum) assurance by a qualified accountant, and
- the bottom tier requiring a choice of assurance by a qualified accountant.

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 to \$300,000 to have a review or audit completed?

13. We have no fixed views regarding the cut-off point for each tier, as it will be arbitrary to some extent. But if we were to place some weight on the statement of Dr Rowena Sinclair, that “lack of transparency and understandability of charities financial statements directly impacts on the credibility and financial viability of charities”, and add our own observation that accounting for members’ (or donors’) money should be a high priority of any charity, then the tiers should not be set too high.

14. We suggest that

- all registered charities with annual operating expenditure of \$250,000 or more are required to have an annual audit completed, and
- those with annual operating expenditure of \$150,000 to \$250,000 are required, as a minimum, to have a review by a chartered accountant completed.
- those with annual operating expenditure of below \$150,000 may choose to be audited or reviewed, should they wish.

Q9: Do you consider that there should be a mechanism to increase the dollar amounts from time to time to counter the effects of inflation?

15. Yes, although as a NFP who does some contracted work for Government, we are never given the opportunity to include mechanisms that would increase dollar amounts over the life of the contract to counter the effects of inflation.

Q10: Do you have any views on the Ministry's estimates of costs and benefits?

16. No

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?

17. Probably not. Based on our own experience we would suggest that those charities which are already undergoing annual audits get significant assurance from that robust review process, and in striving for unqualified audits. Although no audit process can be 100% assured in terms of eliminating all risk, there is still pride to be had in being able to produce a unqualified audit result.

Q12 Do you have any other comments?

18. We think the overall intent is commendable. Charities are the recipients of someone else's money. They should be taking all care and responsibility for the use of that funding, and should demonstrate that in a transparent way in their financial accounts, and in their reporting to members, donors, stakeholders etc.