



north shore community
& social services

North Shore Community
and Social Services Inc
Te Runanga Ratonga Hapori
o Te Raki-pae-whenua
Mary Thomas Centre
3 Gibbons Rd, Takapuna
PO Box 33-284, Takapuna
North Shore City 0740
P 09 486 4820
F 09 486 4823
E info@nscss.org.nz

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SUBMISSION TO MINISTRY OF ECONOMIC DEVELOPMENT

AUDITING AND ASSURANCE FOR LARGER REGISTERED CHARITIES

North Shore Community & Social Services Inc (NSCSS) works across five Local Board areas, including Devonport Takapuna, Kaipatiki, Hibiscus and Bays, Upper Harbour, and Rodney. We also work at a regional level both in the area of community development as well as the provision of community and social services.

NSCSS has a membership base of over 150 community groups on Auckland's North Shore including, arts, environment, health, migrants & refugees, Maori, Pacific, older adults, family services, education, community, youth and disability sectors.

We are part of the establishment group of the Auckland Community Development Alliance; a member of the New Zealand Council of Social Services in Wellington, Social Development Partners and ANGOA in the social policy field.

Introduction

We are a capacity-strengthening organisation and have provided workshops on best practice financial reporting and audit over the last few years. Our aim is for well-governed organisations whether they are small or large, charitable or incorporated. We support the concept of good governance and financial sustainability but do not want to see the introduction of a situation whereby the costs of compliance outweigh the benefits.

Registered charities must include financial statements in their annual returns to the Charities Commission. Currently there are no accounting standards to govern the preparation of these accounts, and consequently many do not comply with NZ GAAP (NZ Generally Accepted Accounting Practice). The Charities Commission currently receives some financial statements in the form of hand written cashbooks, loose receipts and invoices and wants to see an improvement in the quality of reporting. Currently these financial statements:

- Have no prescribed financial reporting framework (that is they do not have to conform to NZGAAP).
- Have no prescribed assurance requirement

The MED's rationale for this change comes from the words of the Minister of Finance (Hon Craig Foss) "A major aim of charity regulation is to promote public confidence and trust in fundraising, thereby increasing the public's willingness to donate"

Summary of MED's proposals

The MED is proposing that for the largest registered charities, the financial statements that must be submitted as part of the annual return, must:

- Conform with NZ GAAP

a strong vibrant connected community

- Be subject to an assurance engagement, depending on their size

Size is to be measured by operating expenditure below:

- Less than \$200,000 – No assurance engagement required
- Between \$200,000 - \$300,000 – Review or Audit Assurance Engagement
- Greater than \$300,000 – Audit Assurance Engagement

*NB A **review engagement** has a limited scope of work to be conducted, that results in “limited assurance” and a “negative opinion”, stating that nothing has come to the auditor’s attention that financial information does not present a true and fair view in accordance with NZ GAAP.*

*An **audit engagement** requires a wider scope of work to be conducted, that results in “reasonable assurance” and a “positive opinion”, stating that financial statements as a whole are free from material misstatement, whether due to fraud or error. As a result, the cost of an audit is higher than that of a review. (MED Discussion Paper pages 22 & 23).*

Response to Questions

Q1. Do you have any comments on the description of the problem definition?

We do not understand why this proposal only covers registered charities. Many organisations that are not registered receive funding from the same government and philanthropic sources so why are registered charities singled out? Can the scope be widened? The implementation of these proposals could create a situation where organisations discontinue their registration with the Charities Commission. This would defeat the purpose of the increasing accountability. Some may say, on the other hand it may lift the benchmark of accountability for all organisations. This is unknown at this point and a likelihood given the increasing financial pressure on community organisations is the first scenario.

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

We are hearing from our members that it is difficult to find accounting firms prepared to carry out audits. They are decreasing in numbers considerably. With this dearth of availability it is likely to increase the costs of compliance. Already compliance takes much of the organisation’s valuable time and resource away from their delivery. We would not want to see this become even more onerous, both time wise and financially.

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?

We agree with ANGOA’s submission here.”What is considered as a “larger” charity has been set at an inappropriately low level. If charities are to be required by legislation to have an assurance engagement then this should only be for charities over \$2million in expenditure”.

Funders who are interested in organisations sustainability can demand audited accounts or limit the funding given if audited accounts are not available. There are already measures in place here.

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 believe that keeping the option open for the governance group to decide is our preferred approach.

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?

Again we agree with ANGOA here..... "the best means for measuring where audit is required would be based on the average amount of public funding received over a period of at least 3 years". There is huge diversity in the charitable sector and no one measure will fit all.

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

We reiterate again that there is concern that there are a decreasing number of qualified auditors and enforcing audits to be undertaken is going to exacerbate the problem leading to raising costs that may be prohibitive. Even though accountants may be qualified, many are unwilling to undertake audits because of the perceived risks for themselves. This will lead to only larger firms carrying out the audits and these will be at higher costs. This issue will not be resolved if assurance processes are to be mandatory. Alternatives need to be considered.

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?

We agree with ANGOA.... "the levels of compulsory assurance should be increased. Also the lower band needs to be widened through than proposed". ANGOA's suggested range is:

- \$1m to \$2m – audit or review
- Over \$2m audit by qualified accountant

This brings the audit requirements more in line with the accounting standards framework.

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?

As stated before we are concerned that the costs could escalate should the government make audit a legislated requirement. Also with the tightening of standards the current pro-bono audit situation that many community organisations enjoy will likely be impacted.

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?

Given the increasing pressure on organisations to be cost efficient and the diminishing funds in the sector then it is likely that agencies will opt for the least costly option.

Q12. Do you have any other comments?

- Audit and assurance costs are already prohibitive for many charitable organisations.
- Auditing is already not easily available to many organisations.
- We are unsure why government is limiting the scope of these proposals to registered charities when many incorporated societies access the same funding sources.
- Funders themselves can recognise and reward organisations that show adequate financial processes without government legislating to do so.
- Many organisations already voluntarily have their accounts audited. This demonstrates a high level of credibility to stakeholders in regards to their financial statements. A requirement to do so limits the credibility of these organisations.

Yvonne Powley

Executive Officer

North Shore Community & Social Services

3 Gibbons Road

Takapuna

09 4864820

www.nscss.org.nz

ypowley@xtra.co.nz