

Assurance for Larger Registered Charities  
Ministry of Economic Development  
PO Box 1473  
Wellington

Wednesday, 6 June 2012

RE: Submission on Discussion Paper "Auditing & Assurance for Larger Registered Charities"

Dear Sir / Madam,

We wish to make the following submissions with respect to the discussion paper named above:

#### Question 1 – Comments about the description of the problem definition

"The problem" outlined in the discussion paper makes the assumption that all organisations, including not for profits and charities should adhere to GAAP. We question this assumption. We agree it would be advantageous for all not for profits and charities to comply with GAAP for the reasons stated so outside organisations and the public at large can assess and compare the organisation in question. However we are not convinced that this advantage to external parties is in the best interest of all charities. This is due to the additional accounting workload it creates on staff or voluntary people or expensive accounting professionals that the new requirement creates. This is a significant additional cost in compliance.

There are a number of not for profits and charities that receive no extra benefit by complying with this new requirement. Several of these organisations are small and fall under the 300K of expense threshold stated further on in the discussion paper. These organisations would be forced to spend more time and money with no benefit to their organisation.

Some charities and not for profit organisations are self-funded by their members and do not receive any funds from the public at large. Their members are concerned that administration costs and overheads are kept to a minimum to maximise the organisations resources so they can be focused on the primary purpose of the organisation. Requiring extra compliance for the public good is at direct conflict with the member's wishes who are the sole or primary financial contributors. Often members have access to the organisation finances or are present at an AGM of members where there is financial transparency, accountability and scrutiny. Effectively they are self governing and self funding from their members. Should these organisations be forced to comply with additional regulations which are primarily designed for external parties?

#### Question 2 – Comments on the description of the objective

The "objective" outlined in sections 17, 18, 19 and 20 of the discussion paper focus on the public at large and external funders having confidence in charities. Although we agree what is being proposed here is useful for these sorts of charities, we question the requirement to be extended to all charities which include those who are largely self-funded by private members. We refer to our comments on question one with respect to this which highlights the increased compliance cost with no benefit at all to certain charities.

Question 4 – Should large charities be required by legislation to have an assurance engagement completed?

There is an assumption in section 30 and 31 of the discussion paper that charities that were required by their constitutions to have a level of assurance would also have filed their assurance report with the Charities Commission. Although it is encouraging that many did, one cannot conclude that every organisation that didn't file an assurance report with the Charities Commission didn't carry out an assurance engagement. Therefore the comments surrounding these findings may not be entirely correct.

We agree that the tier one and tier two organisations should be required by legislation to have an assurance engagement completed, but we question the appropriateness of this for tier three and tier four.

Question 5 – Audit requirements for charities of varying sizes.

We agree that the tier one and tier two organisations should be required by legislation to have an assurance engagement completed which would also require a full audit. We think the definition of “less large” charities and “more large” charities should be reviewed. We think charities in excess of 500K should be required to have an audit. Other organisations under the 500K should not have to have such compliance imposed on them for this. However smaller charities (under 500k) should be free to file such assurances if they wish. They may recognise that there is a public benefit to do so or that some funding agencies require full audits.

Question 7 – Preference between option A & B for assurer's qualifications.

We believe option A would be better and would hope that the cost of audits would be less for charities as a result.

Question 8 – View on proposal for audit requirements on 300+K charities and review or audit requirement for 200+K charities.

We think the audit requirement for both these sizes of charities is too great. We believe charities in excess of 500K should be required to have an audit.

We don't believe a review is useful as the cost of a review and requirements in a review are so close to an audit, that you might as well just have an audit. This also removes confusion from the public at large and outside organisations with varying levels of assurance.

Question 9 – Mechanism introduced to adjust limits based on inflation.

Yes we believe this is a good idea.

Question 10 – Views on the ministries costs and benefits for audits & reviews.

We have found the cost of audits over the last 10 years to be less than that indicated, however the benefit it provides to us is very limited in value.

Question 11 – Do you consider a review being introduced would allow charities currently having an audits done, being able to switch?

We think reviews are not worthwhile. As mentioned above, the cost of a review and the requirements of a review are so close to an audit, you might as well just conduct an audit. This also removes confusion from the public and outside organisations with varying levels of assurance. Also many funding applications require the applicant charity to provide audited accounts, so this would not provide any opportunity for such charities to switch over to a review.

Question 12 – Do you have any other comments?

1. We believe the 6 month time frame is too tight for filing a return now and it would be further burdensome with these extra requirements. We currently struggle to file our returns on time at the six month mark and would request that this is increased to 12 months.

The reasons for this is because our financial year is Jan – Dec and we do not want to change our financial year as it best reflects our organisation for annual comparison. Tax rebate receipts for giving are issued to members based on an Apr – Mar tax year. Any data entry errors in the receipting process carried out by volunteers are not discovered until the accounts are reconciled across various paper records and computer systems in April and corrections are made before final receipts are dispatched. This gives us only May and June to prepare of end of year accounts and have them audited and then file a return at the of June to the Charities Commission.

As a charity we rely on voluntary accounting services from our qualified members to save on commercial accounting services. This means an accounting volunteer will prepare our end of year books in their spare time over May and June. This puts us all under a lot of pressure, which could be avoided if there was more time to file a return. We note individuals are given 12 months to submit annual returns to the Inland Revenue Department and would request charities are treated the same. Although if the law was changed to give six months to file a return after a tax receipt run was completed, it would significantly help.

2. We would also like to ask for charities to have the opportunity to deviate from GAAP in the area of depreciation. This would reduce the cost of preparing end of year accounts and audits.
3. We would also like to see the Charities Commission given a level of discretion around audit and GAPP requirements that can be exercised to be loosen these requirements when dealing with charities which may have slightly more unique requirements or are primarily self funded by private members.

We value the time taken to review these submissions.

Many Thanks,

Dean Smyth / Trustee  
The River Christian Church / (CC22687)