

25 June 2012

DIRECTOR:
Kevin A. Rainey

Assurance for Larger Registered Charities
Competition, Trade and Investment Branch
Ministry of Economic Development
P O Box 1473
WELLINGTON

Dear Sir

SUBMISSION REGARDING AUDTING AND ASSURANCE FOR LARGER REGISTERED CHARTITIES

In order to be a registered charity, all charities have to have a constitution which governs the rules and regulations of the charity. These were approved by the Charities Commission before registration.

The constitutions have been determined by the charity as to what is seen to be appropriate for that charity.

Charities operate in their chosen area, to provide support for their chosen interest. Many charities struggle to obtain a desirable level of funding to provide their chosen services.

I am very disappointed to read that Cabinet, through the Ministry of Economic Development, are now looking at implementing a set of rules that will override the constitutions of the charities.

To take further funds away to meet a government imposed reporting requirement is draconian to say the least.

It seems that part of the argument for the change is because approximately 500 charities out of a total of 31,171 charities registered do not comply with the requirements of their constitutions. The Charities Commission oversees all charities and it should be ensuring that these charities comply, not requiring a law change to impact all charities.

Every charity is different and the presentation of its reports is based upon the requirements of the Board of the charity. Why should they be required to present their reports identical to every other charity if the presentation is not appropriate for the charity's purpose?

The basis of the discussion paper and the research conclusions are based around the study that Cordery & Patel did of the annual accounts covering 300 registered charities out of 31171. Hardly a representative selection.

The costs extracted from this report is used as a basis for the costs that all charities affected by the suggested change would incur.

As nothing is mentioned in the report, a conclusion that I draw from this analysis is that Messrs Cordery & Patel would not be aware that most charities receive a discount from the organisations that provide assurance or audit services.

The three charities that I am involved with have audit charges of 55% of the cost of performing the service. In other words, they have received a 45% discount of the cost the audit firm incurs.

Further, in those charities that I have knowledge of, there are additional accounting fees for the charities, equal to or greater than the costs of the audit to present their accounts in a form appropriate for the auditors.

There has been no mention in the paper regarding this cost.

Conceivably if the number of engagement or audit rises then as a result of the suggested legislation, the discounts may well be reduced.

In addition, because of the regulation of auditors, there are now less small firms undertaking audit engagement or audit service which means that the costs of these services will likely rise.

The Charities Commission already has powers to deal with non-complying charities.

Further, if accounts are being prepared by accountants that do not comply with reporting standards, then the Charities Commission should take that up with the respective Institute that regulates the particular accountant.

With regard to the specific questions raised:

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

I do, due to the fact that a range of 1% of all charities were reviewed on which the conclusions were based.

Q.2 Do you have any comments on the description of the objective?

I do. Every charity is different and presents its annual accounts in the format that they require for their own purposes.

Many charities do not wish for their accounts to be publically available and therefore provide only limited information. This is the direct decision of their Boards.

Why should a Government Department demand something different?

Q.3 Do you have any comment on the description of the options?

The options presented are either audit or an independent review.

I consider there is a third option as occurs with a number of entities.

That the charity provides its information to an independent Chartered Accountant who is tasked with preparing the accounts to the standard required by the charity for its purposes. No audit or independent review is undertaken.

Q.4 Do you consider that large charities should be required by legislation to have an assurance engagement done?

Repeating what I have said before, a Government Body should not dictate to charities its reporting requirements.

The issue is that the Charities Commission is not enforcing its own requirements by taking delinquent charities to task and rejecting their accounts if they do not comply with their constitution.

Q.5 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?

I consider that each charity should decide for itself whether it is required to be audited or have a review completed or have the accounts prepared by an independent accountant.

Q.6 Which measure or measures should be used for determining whether assurance is required and, if there are tiers, for setting the cut-off point between audit and review?

I do not consider a cut-off point is required. Each charity decides itself what level of "assurance" it needs.

Q.7 Do you prefer Option A, Option B or another option in relation to assurers' qualifications?

Whilst I do not agree with a Government imposed requirement, I would prefer Option B.

Q.8 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?

I do not consider that a charity with operating expenditure of \$300,000 to be large.

The Financial Reporting Act whilst applying to companies deems an:

- (1) Exempt company to have assets of less than \$1.0 million, turnover of less than \$2.0 million or five or fewer employees.
- (2) Large company to have assets greater than \$10 million, turnover of greater than \$20 million or 50 or more employees.

Why, if this proposed legislation is going to proceed, cannot the same criteria be used?

Q.9 Do you consider that there should be a mechanism to increase the dollar amounts from time to time to counter the effects of inflation?

If a dollar criteria was implemented and I do not think that it is appropriate, then most certainly it should rise with inflation.

Q.10 Do you have any views on the Ministry's estimate of costs and benefits?

As I have already commented, this cost of audits for charities is artificial simply because the larger audit firms provide discounts on their fees.

Further, as commented, many charities incur accounting fees in preparing the accounts for assurance/audit which has not been mentioned in the estimate.

The cost calculations used in this paper are therefore considerably understated.

Q.11 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?

I do not think this will happen as charities are driven by the requirement of their constitution.

Currently, there is the opportunity to change by altering their constitution, a relatively simple process.

Any that wish to do this would have already done so.

Q.12 Do you have any other comments?

I am completely opposed to the implementation of reporting requirements by regulation.

Charities have their own appropriate constitutions that dictate their reporting requirements and it is for the Charities Commission to ensure all charities comply with their own particular constitutions

Yours faithfully
SOTHERTONS LIMITED



K A RAINEY
Director