

18 July 2012

Assurance for Larger Registered Charities  
Competition, Trade and Investment Branch  
Ministry of Economic Development  
PO Box 1473  
Wellington

**AUDITING AND ASSURANCE FOR LARGER REGISTERED CHARITIES SUBMISSION**

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

We believe the 'problem definition' is drawn from a single piece of research. While we agree there is generally a need for an improvement in the quality of the financial statements presented by some charities. We question whether changing the financial reporting framework on the basis of one study is prudent.

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

The objective outlined in paragraph 20 is clear, although it seems to draw the conclusion that an assurance of financial statements will automatically be of benefit to the users of the financial statements.

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

Paragraph 22 (a) states an audit provides an assurance that the financial statements are free from material misstatement, whether due to fraud or error, however in our experience auditors will not accept responsibility for the financial statements being misstated due to undetected fraud. Indeed the auditors testing in the area of fraud is in our experience very light and instead auditors rely on representation letters that no fraud's have occurred.

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

In regard to this matter we note that there is no definition of the 'users' of financial statements. For example no distinction has been made between those charities that seek donations or funds from the public and those charities which do not. We believe there needs to be a distinction made between charities that have greater accountability to the public.

*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?*

Again noting that no distinction has been drawn between charities which seek donations from the public to those that do not, option (b) appears the more sensible option.

*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?*

Expenditure is the best methodology for determining whether an assurance is required, however thought needs to be given to the definition of distributions and grants to beneficiaries of a Charitable Trust as expenditure.

We believe the tier sizes should differentiate between charities seeking donations and funds from the public to those that do not (i.e. those charities that generate income solely from the investment of endowments).

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

If a choice would need to be made we would prefer option B.

*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 believe the tier sizes should differentiate between charities seeking donations and funds from the public to those that do not (endowments etc).

We reiterate that if distributions/grants are classified as expenditure (in accordance with GAAP)

many charities will be caught by these thresholds.

We believe the tiers are too low.

*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, but we do not believe this would need to occur on a regular basis..

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

We believe the benefits of an audit are overstated.

We reiterate that consideration needs to be given to the definition of the users of financial statements. While some level of regulation regarding the preparation of financial statements is obviously required, the information required by the users of the information needs to be considered.

We also reiterate our earlier comment regarding the Discussion Paper's inference as to the value of assurance assignments. As evidenced in a number of recent surveys the greatest risks within the charitable sector are related party transactions or fraud. In our experience with testing or investigation in these areas is undertaken during an assurance assignment, auditors tending to rely on representation letters, which add no value to an external evaluation. In fact auditors specifically exclude themselves from any responsibility for the 'identification of fraud' in engagement letters and audit reports.

Lastly, with respect to charities which seek donations from public, auditors often qualify these entities audit reports as they are unable to test the completeness of income. This is a key issue donors are concerned about, ie did my money actually reach the charity.

*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?*

One should hope so, if adequate assurances can be gained through a review engagement, or agreed upon procedures review at a lesser cost, then charities should be encouraged to switch from a full audit to a lesser review.

Our experiences have shown that the cost of external assurance can be reduced by 60% - 70% when review assignments are carried out.

*Q12. Do you have any other comments?*

All our comments have been made within the body of this report.

Signed for and on behalf of Trust Investments Management Charitable Trust.



Grant Hope  
Chief Executive