



TRUST WAIKATO  
TE PUNA O WAIKATO

10 July 2012

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

Dear Sir or Madam,

### **Submission on Audit and Assurance for Larger Registered Charities**

Trust Waikato wishes to make a submission on the Ministry of Economic Development's April 2012 discussion paper 'Audit and Assurance for Larger Registered Charities'. This submission was approved following the Trust's 6 July 2012 meeting and has been duly authorised by the Chair and Chief Executive on behalf of Trust Waikato.

#### 1 Trust Waikato (the Waikato Community Trust)

Trust Waikato was established by government statute in 1988 to hold the shares of Trust Bank Waikato. These shares were sold in 1996 and the Trust now holds a range of international and domestic investments. Each year the Trust distributes a percentage of its profits generated from the global investment portfolio.

Trust Waikato's purpose is to help organisations carry out charitable, cultural, philanthropic and recreational projects of benefit to people in the Greater Waikato. Our funding area includes the districts of Thames/Coromandel, Hauraki, Matamata Piako, Waipa, Waikato, South Waikato, Waitomo, Otorohanga, Ruapehu and Hamilton city.

Our vision is for resilient and vibrant communities and, since 1989, the Trust has donated over \$125million dollars to the greater Waikato community.

Our strategic areas of focus support our aims of investing wisely and donating effectively.

We focus on projects, programmes and organisations which contribute to the well-being of communities. We've traditionally had funding priorities around increasing participation in community activities; youth development; preserving our history and cultural identity and encouraging groups to work together and to share facilities for community benefit. We also have a particular focus on working with Maori, Pacific peoples and ethnic communities and their supporters. One of our key areas of focus is 'strengthening community groups'.

invest  
wisely

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donate  
effectively

As a funder, our interest is in having well-governed organisations – whether they be small or large. Trust Waikato uses the financial statements of many not-for-profit and charitable organisations in assessing donation applications. We would therefore support the establishment of minimum standards or requirements across a range of organisations to support good governance and financial sustainability, without over-burdening these organisations, and introducing a situation whereby the costs outweigh the benefits.

This Trust has submitted previously on related issues, such as the Review of the Incorporated Societies Act (October 2011) and the Financial Reporting Framework (December 2011). Copies of these submissions are available on request.

Trust Waikato is a member of the Combined Community Trusts of New Zealand and Philanthropy New Zealand (PNZ).

## 2 Participation in Discussion Forum

A number of Trust Waikato staff attended the consultative seminar on 6 June, in Hamilton, with representatives of ANGOA and the Ministry of Economic Development. In preparing our written submission we have taken note of the discussion and information shared at this seminar.

## 3 Specific comments on the issues paper

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

Unfortunately, this proposal covers only registered charities. Many sporting groups and other incorporated societies receiving funding both from Government and charitable sources are not registered charities and are therefore outside the scope of the proposed legislation. Can the scope be widened?

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

A tiered approach of audit and review sounds a reasonable approach.

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

Yes it is a matter of accountability and public confidence.

**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.*

Yes, for large charities it is a matter of accountability and public confidence.

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?*

Yes, for 'more large' charities > \$500k expenditure it is a matter of accountability and public confidence.

Yes for 'less large' charities \$300-\$500k expenditure a review should be completed as a minimum. An audit should not be mandatory as the cost would outweigh the benefit.

The tiers should have a mechanism for being increased so that they do not become inappropriately low over the passage of time.

Q6 *Which measure or measures should be used for determining whether the assurance is required and, if there are to be tiers, for setting the cut-off point between audit and review?*

Both annual operating expenditure and assets should be part of the measure. That is an either/or measure should be adopted eg 'more large' charities requiring audit have either >\$500k expenditure or \$2m assets. The reason for this suggestion is that charities not only provide services in our communities but are often the guardians of community assets eg churches, historic buildings, theatres, sports facilities etc. There is an accountability of stewardship aspect to this property holding which should be open to public scrutiny if public and other charitable funds are provided for the upkeep of significant assets.

Q7 *Do you prefer Option A, Option B, or another option in relation to assurers' qualifications?*

Trust Waikato's preference if for Option B:

*A combination of (i) a lower proportion of registered charities being required to have an assurance engagement completed and (ii) requiring all of those engagements to be carried out by qualified accountants.*

However, it is our experience that there are many small towns in the Waikato region in which no accountants are willing to undertake audits, because of the perceived risk for them, even though they are appropriately qualified. Audits are becoming the province of larger accounting firms, and at high costs which cannot be afforded by the vast majority of charities. The cost is higher for charities, many of which are smaller and not located in major towns or cities. This issue will not be resolved if assurance processes are to become mandatory.

Q8 *What are your views on the tentative proposal for all registered charities with annual operating expenditure of \$300k or more to have an audit completed and annual operating expenditure of \$200-\$300k to have a review or an audit completed?*

Trust Waikato considers that the proposed ceilings are too low and suggests:

Large charities: >\$500k operating expenditure or \$2m assets – full audit

Less large charities: \$300k-\$500k operating expenditure or \$1m assets – audit or review engagement.

However, the new reporting standards proposed by XRB should be considered and lined up with the audit requirements. Both of the suggestions will result in many organisations which prepare simple format accrual based accounts being required to have a full audit as the upper expense limit for reporting like this is \$2m expenses.

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?*

Yes.

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

Refer to our comment under Q7, regarding our concern about access to audit services. There is probably an under-estimation of the cost, but more significantly an under-estimation of the availability of audit services.

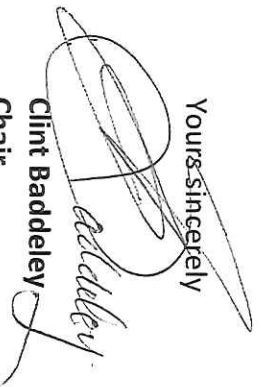
Q11 *Do you consider that introducing a review requirement into law could encourage some charities that are currently having an audit carried out to switch to a review?*  
Possibly, and that would be acceptable.

**In summary:**

- Trust Waikato uses the financial statements of many not-for-profit and charitable organisations in assessing donation applications.
- Trust Waikato believes mandatory review and audit processes for larger charities would be beneficial because enforceable financial reporting standards are appropriate, and increase the level of public confidence.
- Audit and assurance costs are prohibitive for many charitable organisations.
- Audit services are not readily available to many charities.
- Trust Waikato would like to see the scope extended to incorporated societies.

Thank you for the opportunity to make these comments. Please contact our Chief Executive if you wish to discuss any matter raised in this letter.

Yours sincerely



**Clint Baddeley**  
Chair



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