

Submission to the Discussion Paper on Auditing and Assurance for Larger Registered Charities, July 2012: by the Wellington Community Law Centre and the Wellington Community Justice Project

WHO WE ARE

The Wellington Community Law Centre (WCLC) was established in 1981 to meet the unmet legal needs of individuals and community groups. We achieve this through the provision of free legal advice, assistance, education and information resources. WCLC employs 7 Community Lawyers / Rōia Hapori, three Kaihāpai / Kaiako Hapori / Community Education Workers / Community Advocates, a Volunteer Coordinator, an Administrator and a General Manager. We also have more than 250 volunteers who provide around 6,000 hours of volunteer labour annually. A significant portion of our work is with community groups who may be affected by the proposed changes in this discussion paper.

The Wellington Community Justice Project aims to improve access to legal services in the wider community. It does so by working with various existing organisations which share similar goals, including the Wellington Community Law Centre. In addition to this, it acts to ensure that areas of society which may be overlooked by the current system are addressed by exploring new avenues of community work. When law reform is initiated, we aim to reach out to groups in the community whom we believe will be affected and ensure they are appropriately considered.

BACKGROUND

To gain further understanding of the discussion paper and to help us formulate our submission we considered some of the academic debate regarding compulsory

assurance for charities. This involved a conversation with Victoria University of Wellington Professor Carolyn Cordery, as well as some broader research of the current situation. We are sympathetic with the motives for reform and we understand that the status quo is messy; many charities have poor assurance systems as a result of low-prioritisation, lack of funding and lack of available personnel. It appears also that the assurance measures undertaken by charities are often of an inadequate standard; at least according to Dr Cordery's analysis of a sample of the sector. It appears stricter requirements regarding assurance measures would create the right incentives for charities to better meet their obligations in terms of accountability. However, we were naturally concerned with the impact on charities, in terms of their ability to actually meet the proposed requirements. To get a wider frame of reference, we wanted to speak to charities to see, firstly, if they agreed with the implementation of such a scheme, and secondly, what the issues would be for them. We hypothesised that the primary concern would be a lack of funding to pay for the increase in compliance costs. Beyond this though, we hoped to obtain constructive insights into other difficulties charities may have with a compulsory regime.

OUR METHOD

In approaching the charities, we felt it would be most constructive to target a certain annual expenditure range, of \$200,000 - \$300,000. We identified this range would be the most affected by the proposal of compulsory assurance. With target charities in mind, we then composed a summary of the current position and the Ministry of Economic Development's proposal. This incorporated the MED's Discussion paper briefs and other articles, along with key definitions and explanations. Alongside this, a questionnaire of 10 specific questions was provided to each charity, which intended to focus on how each charity found the proposal, and the advantages and disadvantages of the proposal. The responses are therefore directed specifically to the issues identified

by the Ministry, and their recommendations. The responses from these questions in turn frames our submission and our main concerns and comments.

THE FEEDBACK

We interviewed:

- Kaibosh Food Rescue (Kaibosh) – OPEX under \$200,000
- Wellington Rape Crisis – OPEX \$250,000
- Vincents Art Workshop (Vincents) – OPEX \$265,000
- Te Whare Roki Roki – OPEX \$286,000

1. Do you think it is a good idea for some charities to have their financial statements audited?

All of the charities interviewed agreed with this statement. Kaibosh and Te Whare Roki Roki added that they thought accountability was important. However Vincents acknowledged that in practice it can be difficult to find affordable auditors and therefore suggest either financial assistance for auditing or increase the volume of auditors, particularly making low-cost auditors available.

2. It is proposed that the charities with an annual operating expenditure of \$200,000 or more would be required to have an audit or review engagement completed. Do you think the \$200,000 threshold is a) too high? B) too low or c) about right? Why?

All charities agreed this figure was “about right,” but acknowledged it is hard to measure. It is noted that \$200,000 is a significant amount and needs to be accounted for. Kaibosh thought it was great that there would be an option between an audit or

review, so those around this annual expenditure are not limited to more expensive options of assurance. Both Te Whare Rokioki and the Wellington Rape Crisis agreed that with this amount of funding and donations, some assurance requirements should be in place.

3. It is proposed that registered charities with annual operating expenditure of \$300,000 or more would be required to have an audit completed. Do you think the \$300,000 threshold is a) too high? b) too low or c) about right? Why?

Kaibosh, Wellington Rape Crisis and Te Whare Roki Roki thought that the proposed threshold of requiring audits for charities with an annual operating expenditure of \$300,000 or more was about right. Kaibosh added that they thought an audit to ensure accurate reporting seems fair over such a threshold. Te Whare Roki Roki stated that they have to have comprehensive audits completed for the majority of their funders and for the Women's Refuge national office.

4. This question asked charities whether they agreed with the following proposed outcomes of the changes to audit requirements:

- Increase public confidence and trust within the charitable sector.
- Ensure that the sector is more efficient and effective.
- Improve comparability within the sector.
- Ensure that potential funders and donors can make more informed decisions about the charities they support.

Te Whare Rokioki, Vincent's and Kaibosh mostly agreed with the statements we proposed, which included improved comparability with the sector, and increased public confidence.

Vincent's especially agreed that this ensures that the potential funders and donors can make more informed decisions about the charities they support. Te Whare Rokiroki noted that although they agree with the majority of outcomes that would come from these assurance standards, the nature of their roles in the community already demands that they be efficient and effective anyway. Every charity is different in their captured group of funders and donors, but for a large proportion of charities a similar size to Te Whare Rokiroki, an audit is already necessary thus the outcomes are already exhibited. It was also noted that while public confidence and the appearance of transparency is hugely important, it is still overlooked that an audit does not offer complete assurance of how money is spent.

Kaibosh added that donors are typically not interested in audits/reviews, however, funders always ask to see financial statements, therefore for the majority, there is a requirement to provide audits or reviews even if they are under the \$200,000 per annum threshold.

The Wellington Rape Crisis response to the increasing public trust and confidence outcome was that the main way in which an audit increases confidence is in highlighting instances of fraud. It should be kept in mind that there are other systemic processes which highlight and prevent instances of fraud, e.g., the requirement for two signatures from trustees in some transactions, thus having an audit is not the be all and end all. They also suggested that the sector is efficient enough as it is, as they provide services on extremely limited funding (on the "smell of an oily rag"), which they could not do without maximum efficiency. In response to the improved compatibility, the Wellington Rape Crisis representative considered the only way comparability could be improved is if there were standardised auditing requirements, given that charities that currently have audits produce completely different documents at the end of the process.

5. Do you see any other advantages?

Kaibosh, Vincent's and Te Whare Roki Roki all saw other advantages. All these charities noted that a significant advantage was accountability across the non-for-profit sector. Vincents and Wellington Rape Crisis also noted that audits give the charity confidence in its current practice and clarity in regard to its financial position. Wellington Rape Crisis further highlighted the importance of scrutinising processes that are implemented by people who do not necessarily have a background in finance.

6. The Cost – an average cost of assurance for \$200,000 plus charities is 0.91% (\$1,820), is the cost worth the advantages?

The response to this question was mixed. Kaibosh was fairly happy with the estimate as a projected cost for assurances. Vincents also considered the cost to be an acceptable sacrifice. Wellington Rape crisis considered the average cost stipulated by the MED to be a little low, noting that they considered \$3000 to be the average cost of an audit, with \$2000 being a "good price". For them, this cost is difficult to meet as it must be subsumed by donations – it is not something that their funders cover. Thus if the proposal is enacted, they would like to see a funding scheme initiated to assist with resulting costs.

7. Do you see any disadvantages other than cost for assurance?

Te Whare Roki Roki and Vincents did not see any other disadvantages other than the cost. Kaibosh noted that occasionally the timeline is too tight for them in terms of getting in the relevant information to the specific people. Wellington Rape Crisis were

concerned that due to limited staff, producing the documents required for an audit would place extra strain on the organisation.

8. Do you have any other comments?

Vincent's recognised that the current proposals worked well for their particular charity but expressed concerns that the financial impositions could be challenging for emerging organisations due to the time that audits and reviews require.

Te Whare Roki Roki maintained that there were three other considerations to take into account before making audits compulsory. First, whether there will be financial assistance provided to subsidise the costs of audits. Second, whether professionals are willing to audit charities at a capped rate if retired accountants are not allowed. Third, whether accountants who audit charities will be provided with training in order to recognise that a charity is not run like a business in the sense that the way in which the costs balance with the funding is different.

Wellington Rape Crisis noted that it would be a problem if audits were required to be carried out by qualified practitioners or chartered accountants. This would increase costs and limit the pool of people that they can approach. They further state that it is already difficult to find good and cheap auditors and increasing the number of charities that will require access to those auditors may only make the process more difficult.

CONCLUSION

In conclusion, the charities that we interviewed agreed in general with the benefits of auditing/review of charities within the \$200,000+ OPEX bracket. However, their concerns include the financial cost of regular assurance and the time involved. If the scheme is introduced, they would like to see support through funding/personnel.

Our view follows the consensus of the groups we interviewed. We believe that the rationale behind the changes is sound, however it will need to be complemented by some form of support for the charities affected. It would also be helpful for more work to be done to encourage pro bono support from accounting firms for charitable entities.