

# Auditing & Assurance for Larger Registered Charities

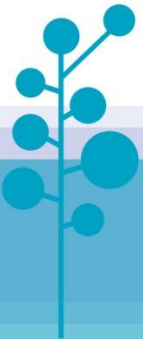
Geoff Connor  
Chief Advisor

Ministry of Economic Development  
23 May 2012

# Process

- 20 July – submissions close
- Minister of Commerce reports to Cabinet in Q4 2012

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Ministry of Economic  
Development

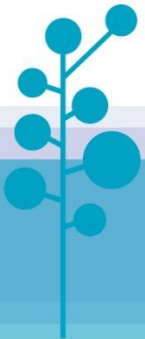


Manatū Ōhanga

# Charities sector is important

## Registered charities

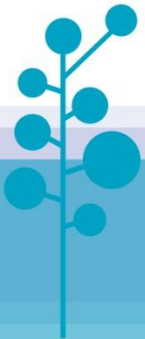
- 25,500 registered charities
- Total revenue of \$8.7 billion



# Registered charities are publicly accountable



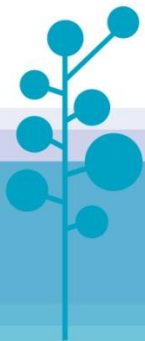
- Received \$1.2 billion in donations
- Donating public has an interest in whether money is being used effectively and efficiently



# The issue

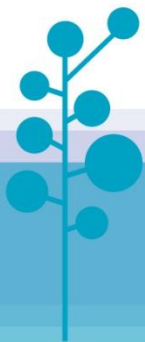
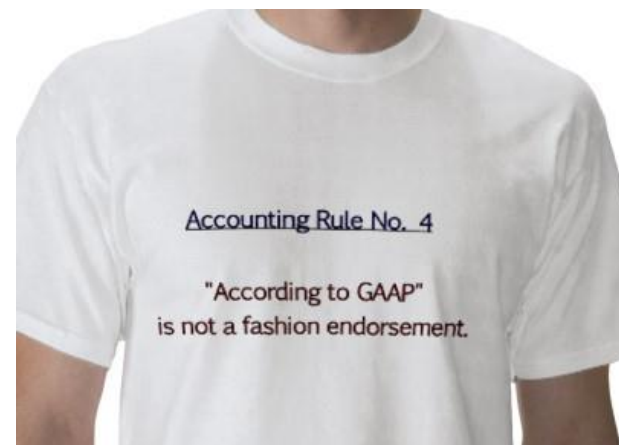
“...many instances of poor quality financial statements prepared by so-called qualified accountants. These resulted in meaningless financial statements that did not tell the story of the charity.”

Dr Rowena Sinclair, *Understandability and Transparency of the Financial Statements of Charities*, PhD thesis, Auckland University of Technology (2010) p145



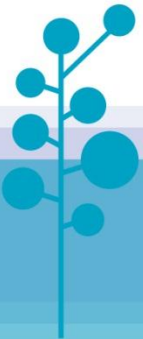
# Examples of non-GAAP practices

- Not including donated assets
- Excluding donations from revenue
- Using obscure terminology
- Actively lowering assets or income to “look poor”



# Accounting standards

- Financial Reporting Bill (introduction in 2012, subject to Cabinet approval)
- Standards issued by XRB to start applying to charities for financial years beginning on or after 1 April 2015





**EXTERNAL REPORTING BOARD**  
*Te Kāwai Ārahi Pūrongo Mōwaho*

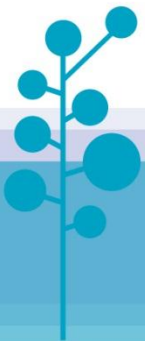
Tier	Entities	Standards
1	Expenses >\$30m	Public Benefit Entity (PBE) standards
2	Expenses \$2m-\$30m	Reduced disclosure requirements (RDR) PBE standards
3	Payments \$40,000 to expenses \$2m	Simple format standard (accrual basis)
4	Payments <\$40,000	Simple format standard (cash basis)





# Tentative Proposal

- OPEX of \$300,000 or more – audit
- OPEX of \$200,000-\$300,000 – audit or review
- Dollar amounts linked to assurer's qualifications

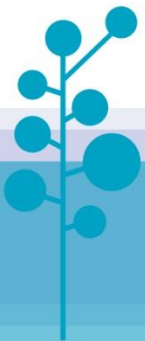


# Benefits of assurance – to users



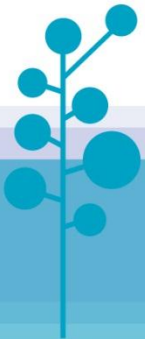
Users can be more confident that the financial statements comply with GAAP/accounting standards

- Improves accountability
- Improves comparability among charities



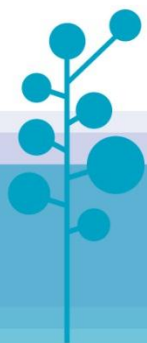
# Benefits of assurance – to charities

- Individual charities benefit for governance reasons
- Charitable sector gains through increased public confidence

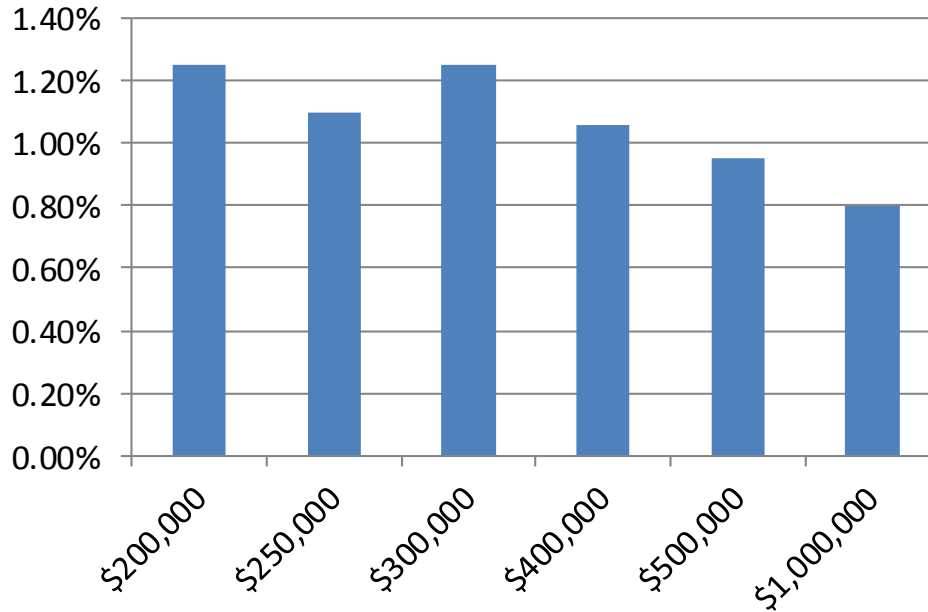


# Average cost of assurance

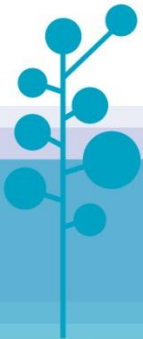
Annual Operating Expenditure (a)	No. of charities over the column (a) dollar figure	The average cost of an audit (b)	Audit cost divided by expenditure (b)÷(a)	The average cost of a review (c)	Review cost divided by Expenditure (c)÷(a)
\$100,000	6,711	\$2,750	2.75%	\$2,000	2.00%
\$150,000	5,415	\$3,000	2.00%	\$2,250	1.50%
\$200,000	4,602	\$3,250	1.63%	\$2,500	<b><u>1.25%</u></b>
\$250,000	4,030	\$3,500	1.40%	\$2,750	1.10%
\$300,000	3,556	\$3,750	<b><u>1.25%</u></b>	\$2,750	0.92%
\$400,000	2,916	\$4,250	1.06%	\$3,250	0.81%
\$500,000	2,477	\$4,750	0.95%	\$3,500	0.70%
\$1m	1,464	\$8,000	0.80%	\$5,000	0.50%



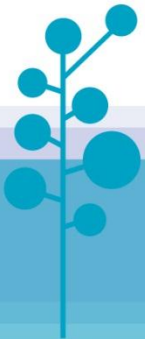
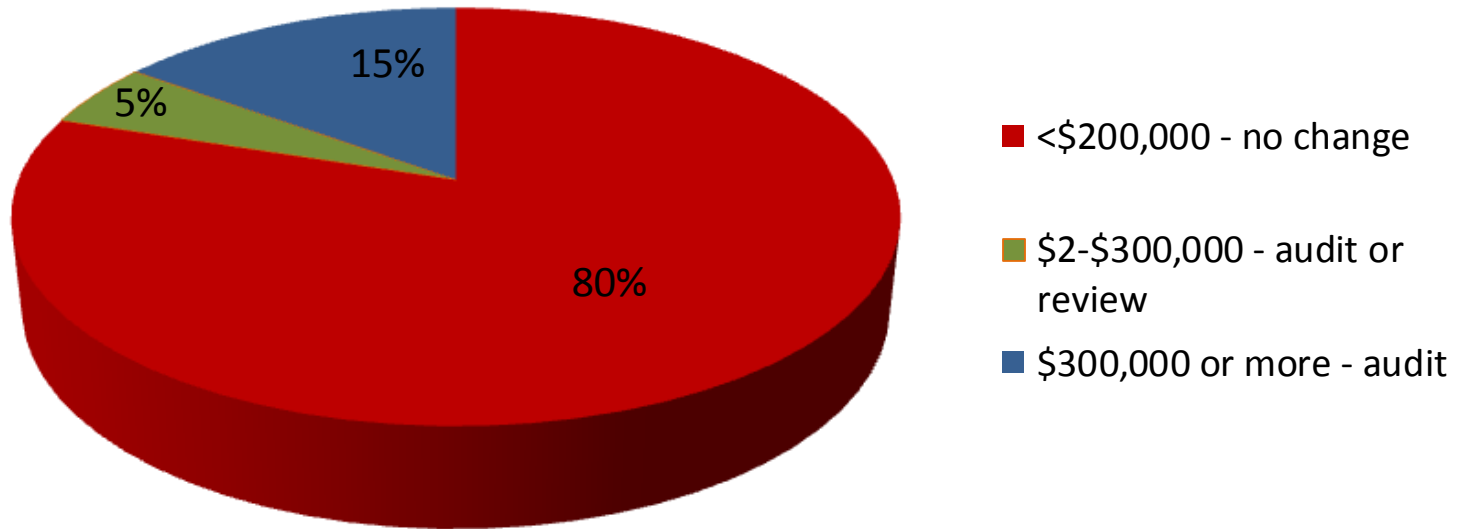
# Figure 1: Average assurance cost as a percentage of operating expenditure



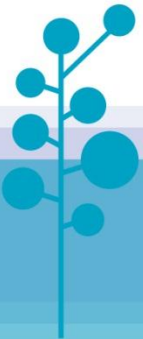
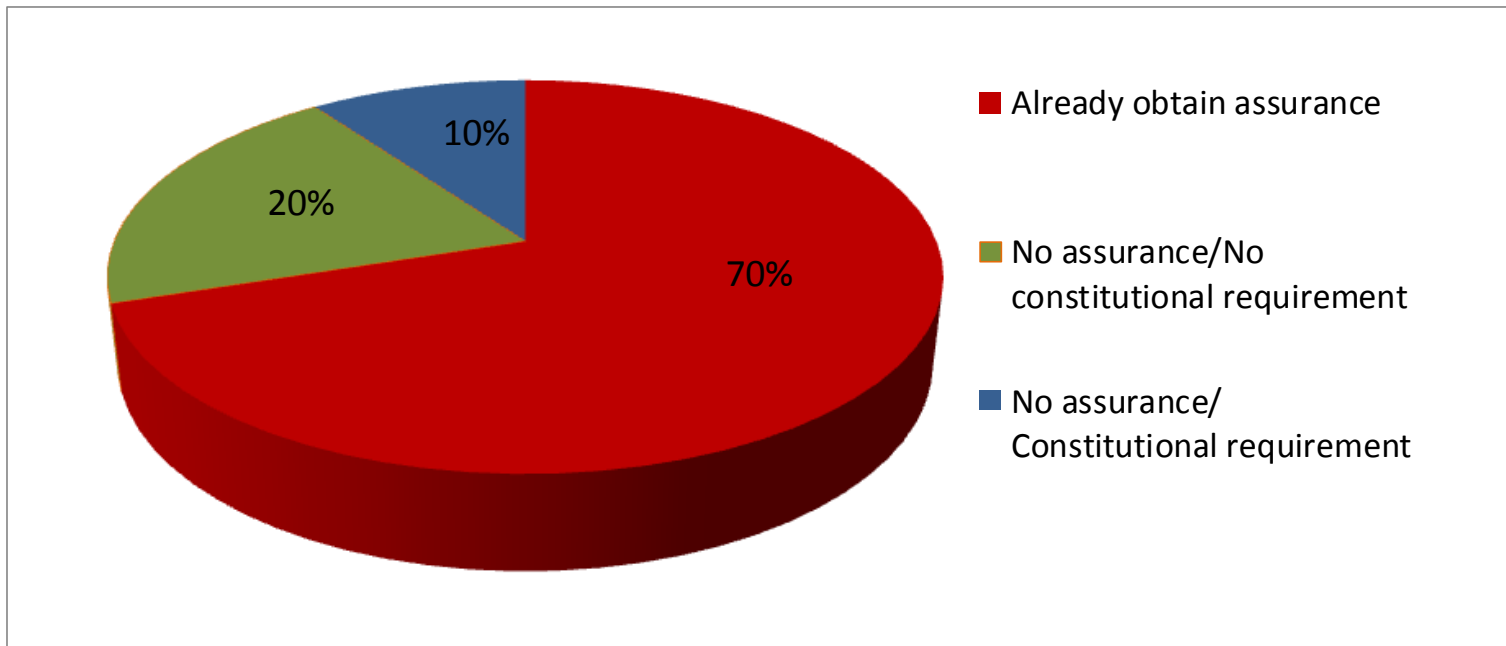
■ Figure 1: Assurance costs as a percentage of operating expenditure



# 25,500 Registered Charities

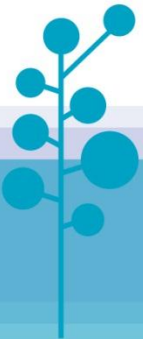


# \$200,000+ Charities



# Overall impact of tentative proposal

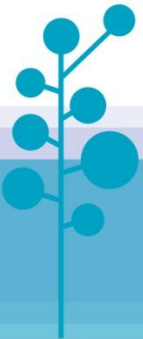
- Change for 6% of registered charities (i.e. 30% of 20%)
- Compliance costs about \$6.5 million for charities that spend about \$715 million – i.e. about \$1 for every \$110 OPEX



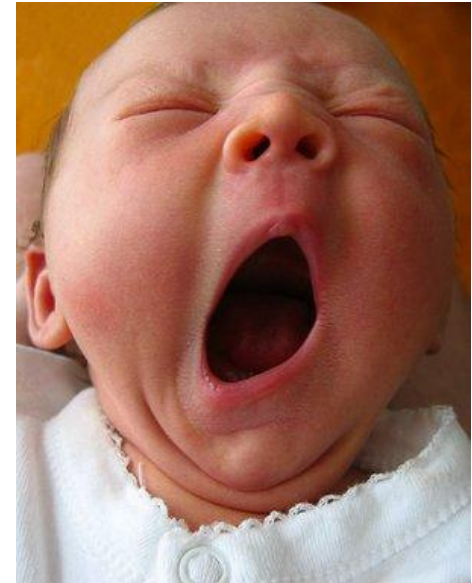


# How many audits – Examples

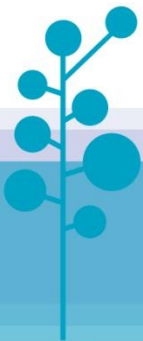
- 10 branches registered as a single charity. OPEX \$1 million, no branch over \$200,000 – One audit of the consolidated financial statements
- 10 branches registered as a single charity. OPEX \$1 million, two branches over \$200,000 – One audit of the consolidated financial statements
- Single charity registered but it controls another entity that is unregistered – Prepare consolidated financial statements which include the unregistered entity if XRB accounting standards require it



## Questions in the discussion paper – standard questions



- Q1. Do you have any comments on the description of the problem definition?
- Q2. Do you have any comments on the description of the objective?
- Q3. Do you have any comments on the description of the options?

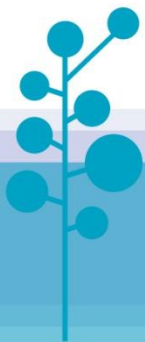


## Questions – mandatory assurance?

Q4. Should large charities be required by legislation to have an assurance engagement completed?

Q5. Do you consider that all large charities should be required to have an audit completed or should “less large” charities have the choice of audit or review?

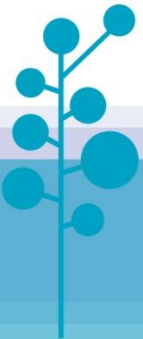
Q8. What are your views on the tentative proposal for audit over \$300,000 OPEX and audit or review from \$200,000-\$300,000 OPEX?



# Assurers' qualifications

Q7. Do you prefer Option A or B?

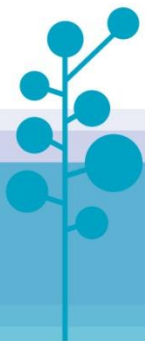
- **Option A:** A higher proportion of registered charities being required to have an assurance engagement completed and certain non-accountants being permitted to carry out relatively simple engagements
- **Option B:** A lower proportion of registered charities being required to have an assurance engagement completed and requiring all those engagements to be carried out by qualified accountants



## Costs and benefits

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

- The estimates of assurance costs in Table 8 on page 19 of the discussion paper
- The implication that the benefits outweigh the costs when charities spend, on average, \$1 on assurance for every \$110 of expenditure

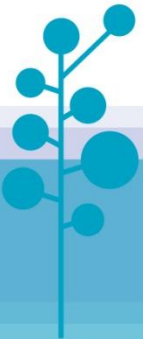


# Other Questions

Q6. Should the criterion for determining whether a charity is large be income, expenses, assets or employees?

Q9. Should there be a mechanism for the government to increase dollar amounts from time-to-time to counter the effects of inflation?

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?



# General Question

Q12. Do you have any other comments?

