



Incorporated Societies as an organisational form – Proposed changes, governance and accounting issues

Carolyn Cordery

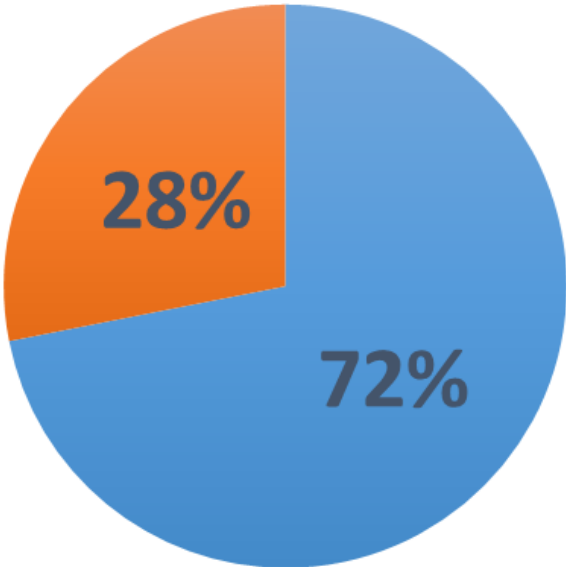
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Overview of session

- **Statistical overview of the sector**
- **Types of transactions incorporated societies enter into**
- **What will the Bill require for financial reporting?**
- **Proposed audit requirements**
- **Possible issues to be aware of**

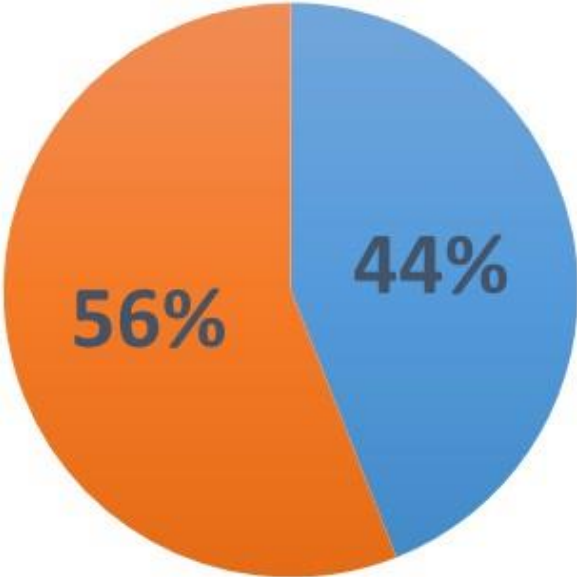
Comparing the two registers

Incorporated Societies



■ Not a charity ■ Registered Charity

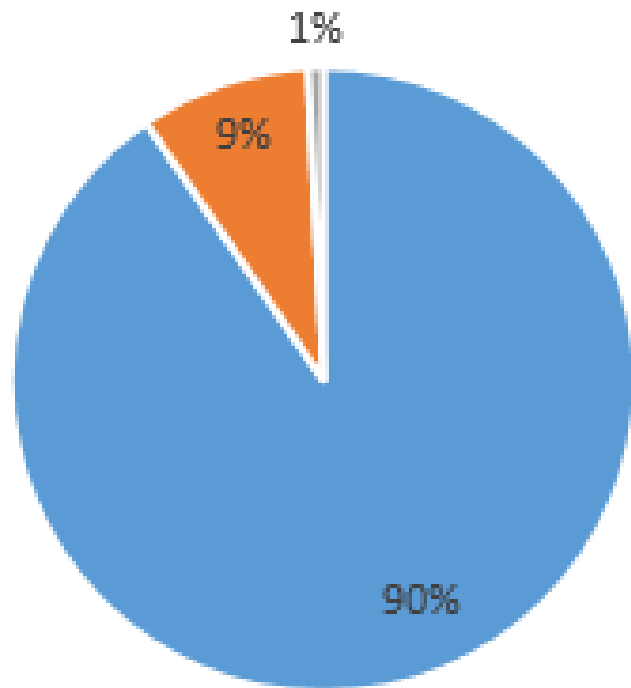
Registered Charities



■ Society or Institution
■ Trustees of a trust

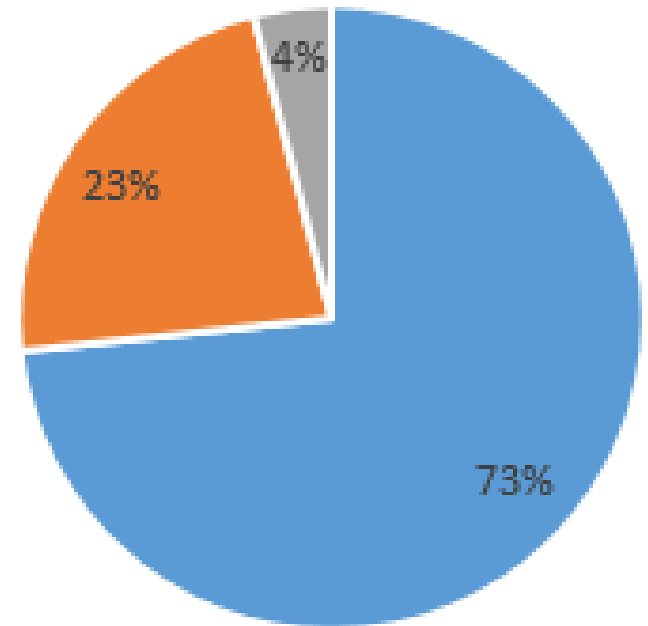
Comparing the two registers - size

Incorporated Societies



■ Tier 4 ■ Tier 3 ■ Tier 1 & 2

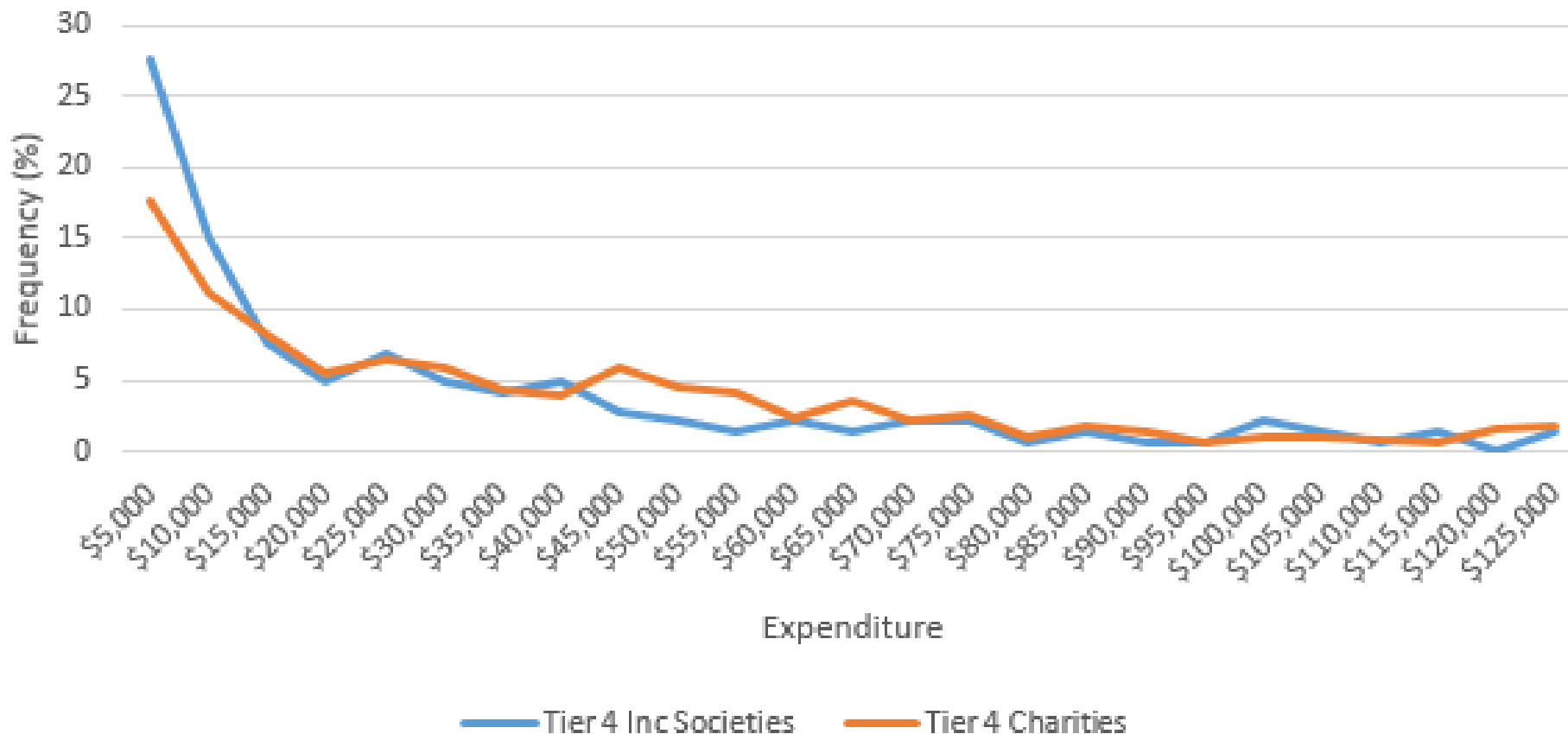
Registered Charities



■ Tier 4 ■ Tier 3 ■ Tier 1 & 2

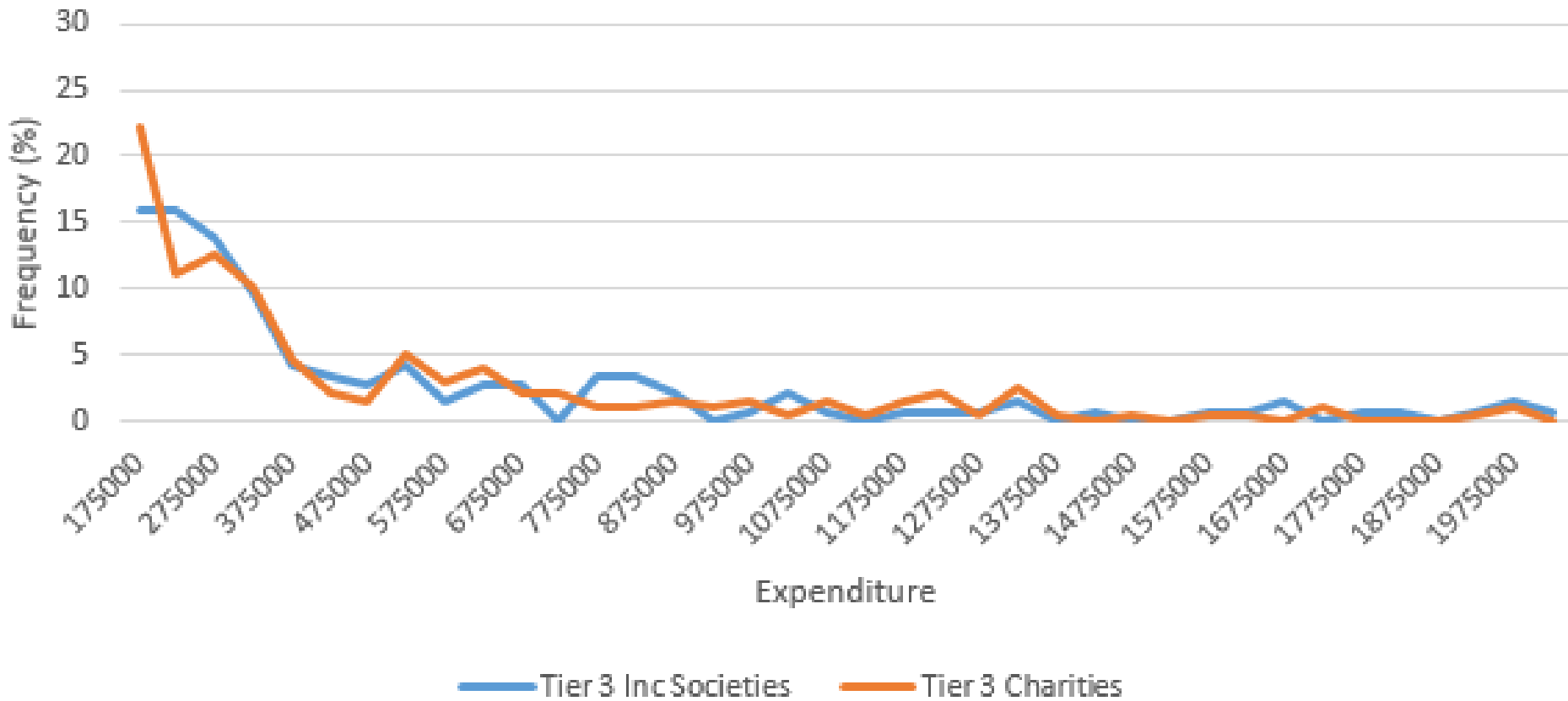
Many small entities...

Figure 17: Distribution of tier 4 Incorporated Societies and Charities size



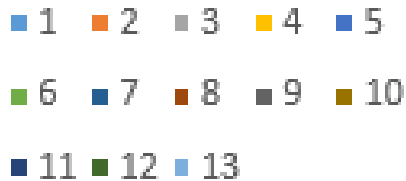
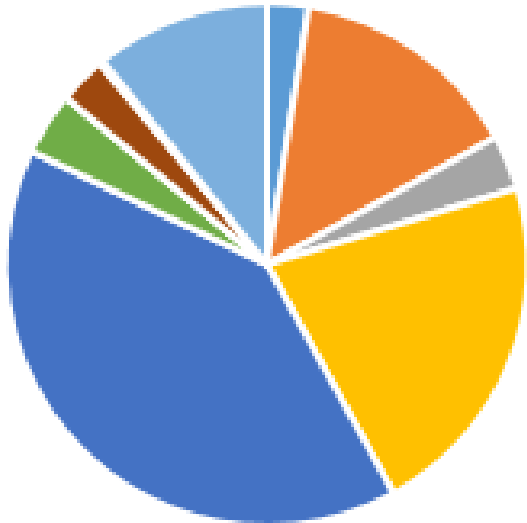
Many small entities...

Figure 18: Distribution of tier 3 Incorporated Societies and Charities size

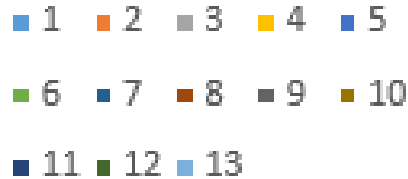
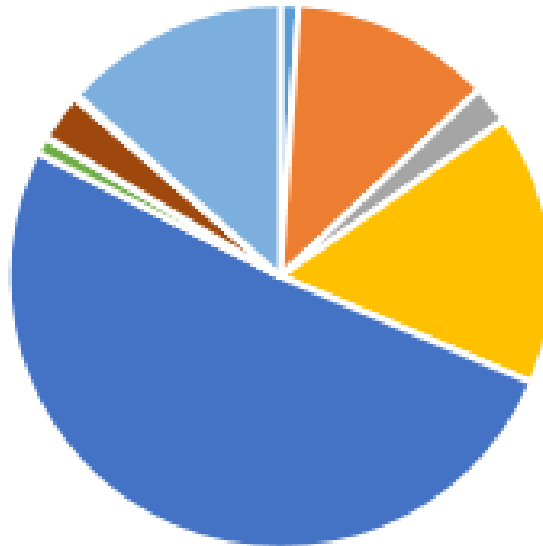


Sources of revenue for Incorporated Societies

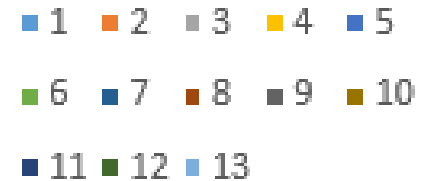
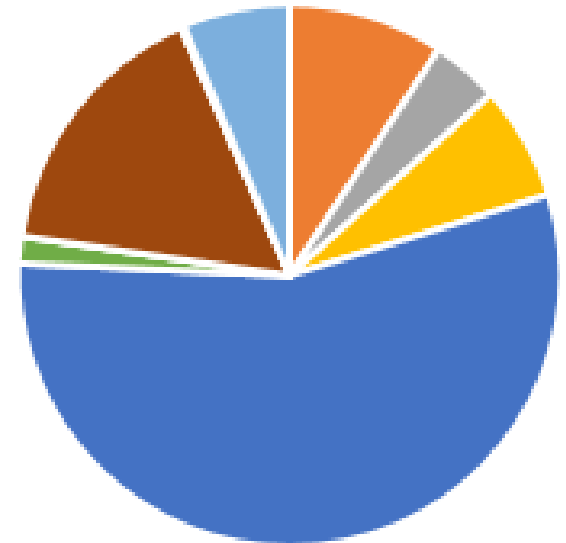
Tier 4



Tier 3

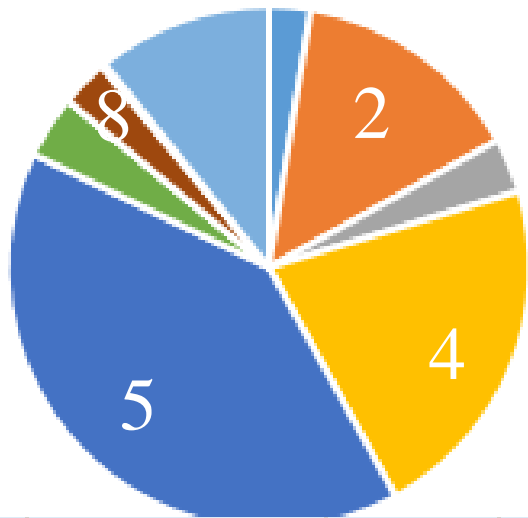


Tier 1 & 2

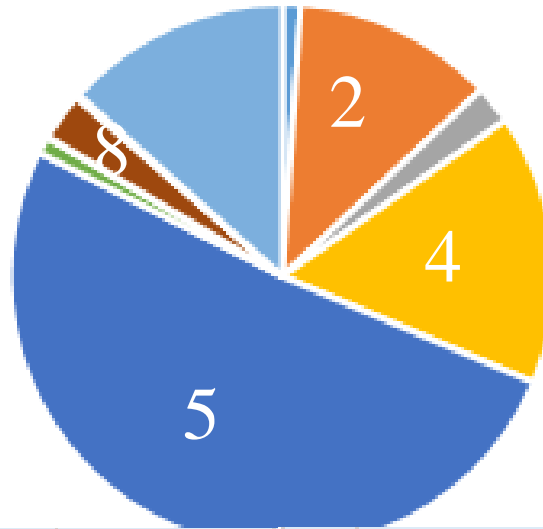


Sources of revenue for Incorporated Societies

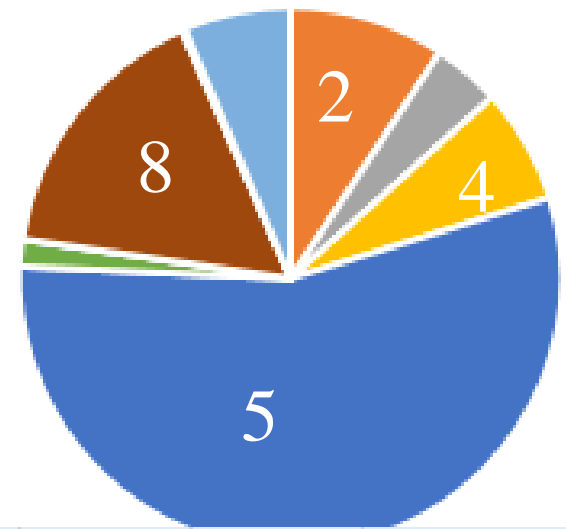
Tier 4



Tier 3

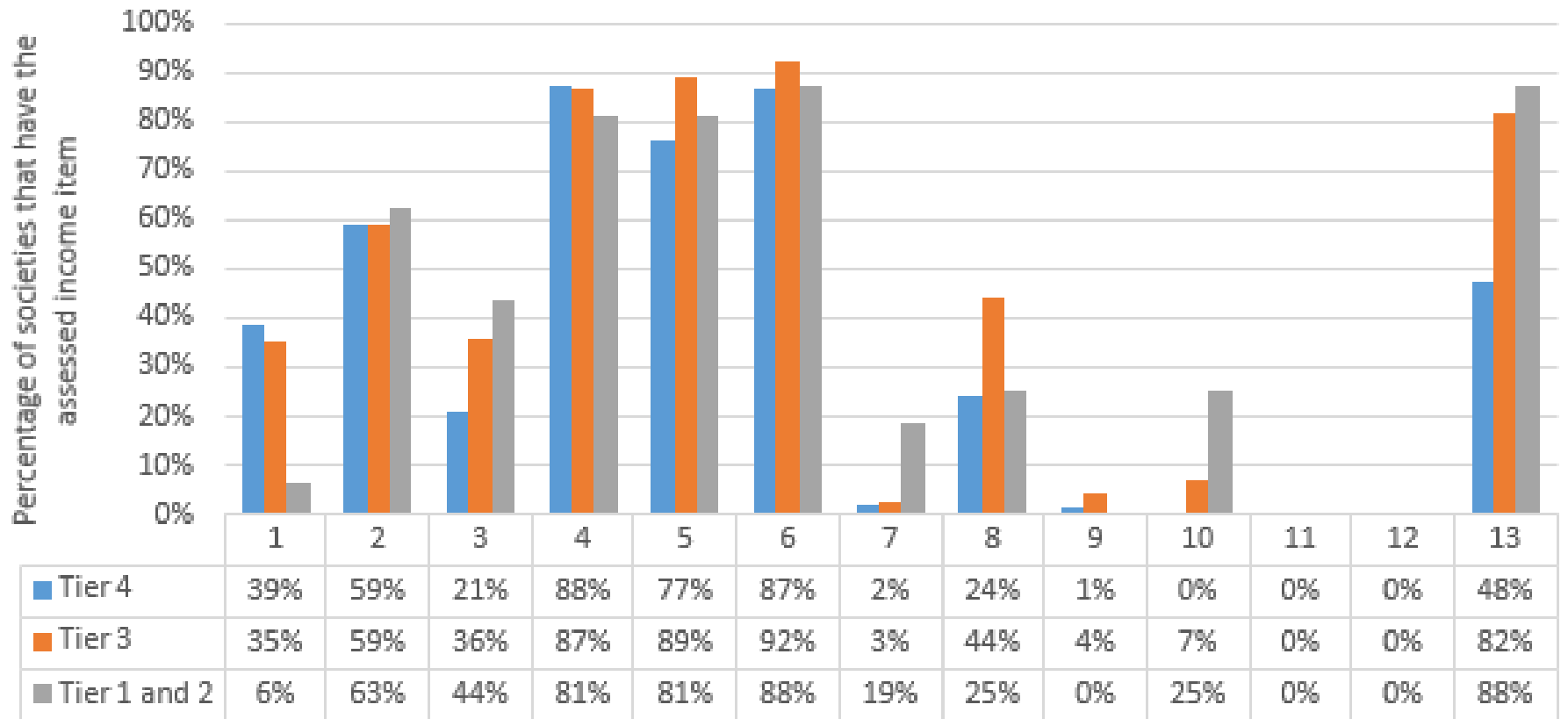


Tier 1 & 2



4	Fees from members	21.7%	16.1%	6.8%	2	Other donations & grants	14.4%	11.9%	9.3%
5	Revenue from goods & services	40.2%	51.1%	55.5%	8	Rental income	2.9%	2.8%	16.1%

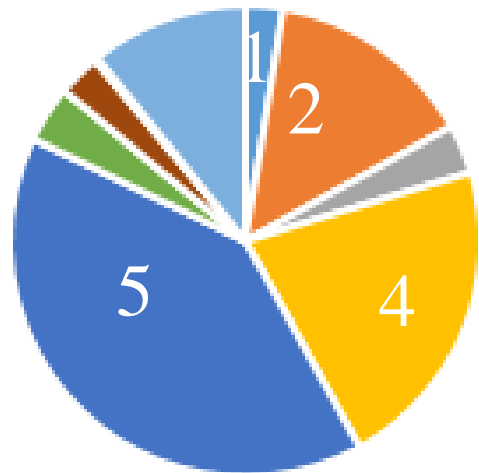
Figure 1: Comparison of Revenue for Tier 1 & 2, Tier 3 and Tier 4 Incorporated Societies



1	Fundraising from public	4	Fees from members	7	Dividend income	10	Gain on sale of assets/ revaluations
2	Other donations & grants	5	Revenue from goods & services	8	Rental income	11	Bequests
3	Subcategory sponsorship, if provided	6	Interest income	9	Other investment income	12	Income as budget holder for another organisation

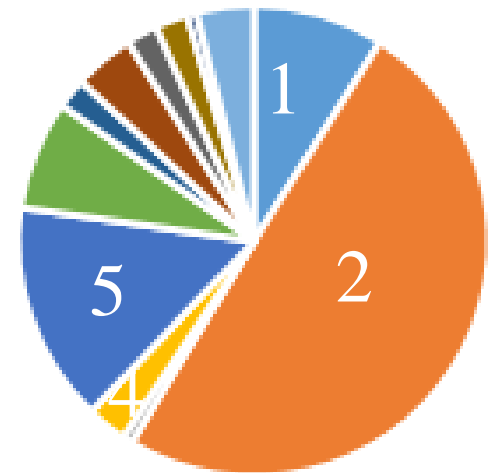
Comparing Inc Socs to Charities

Revenue Composition for Tier 4 Inc Societies



■ 1 ■ 2 ■ 3 ■ 4 ■ 5 ■ 6 ■ 7
 ■ 8 ■ 9 ■ 10 ■ 11 ■ 12 ■ 13

Revenue Composition for Tier 4 Charities

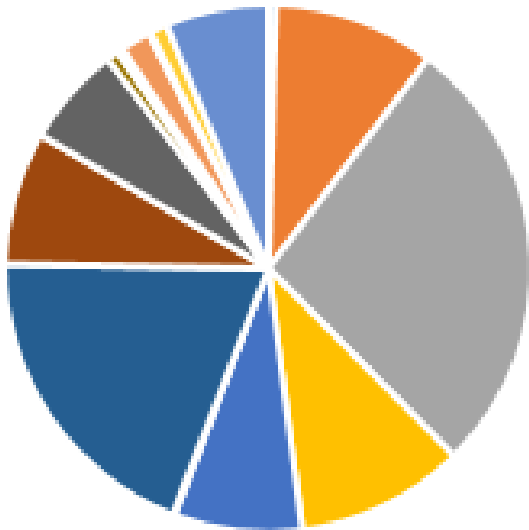


■ 1 ■ 2 ■ 3 ■ 4 ■ 5 ■ 6 ■ 7
 ■ 8 ■ 9 ■ 10 ■ 11 ■ 12 ■ 13

1	Fundraising from public	2.6%	9.0%	4	Fees from members	21.7%	2.7%
2	Other donations & grants	14.4%	49.7%	5	Revenue from goods & services	40.2%	15.1%

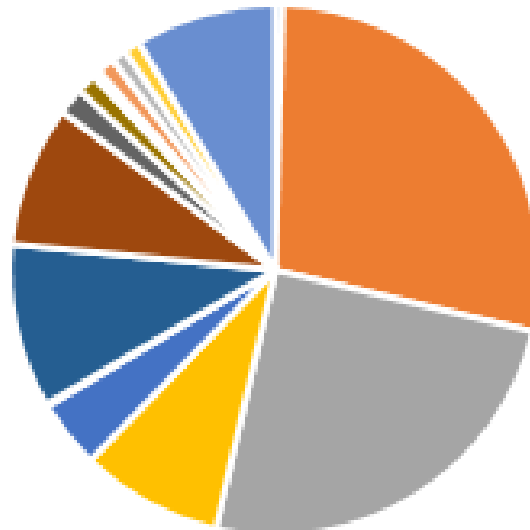
Average expenditures of Incorporated Societies

Expenditure Composition for Tier 4 Inc Societies



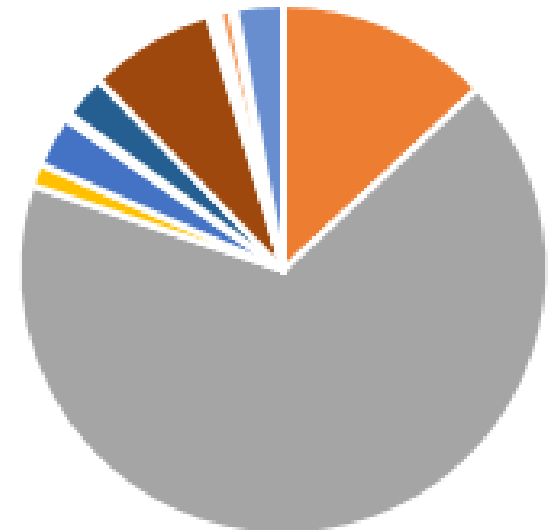
- 1 ■ 2 ■ 3 ■ 4 ■ 5 ■ 6
- 7 ■ 8 ■ 9 ■ 10 ■ 11 ■ 12
- 13 ■ 14 ■ 15 ■ 16 ■ 17

Expenditure Composition for Tier 3 Inc Societies



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- 7 ■ 8 ■ 9 ■ 10 ■ 11 ■ 12
- 13 ■ 14 ■ 15 ■ 16 ■ 17

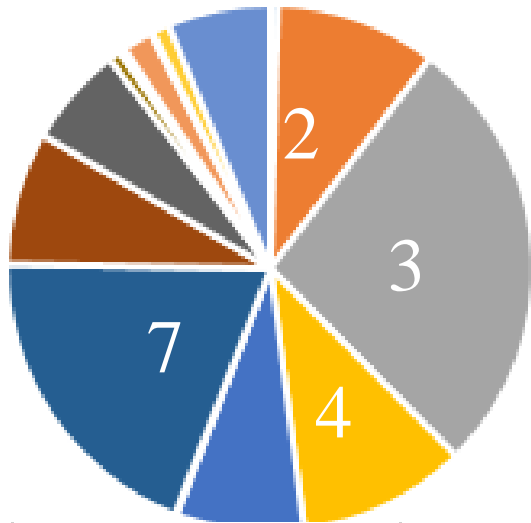
Expenditure Composition for Tier 1 & 2 Inc Societies



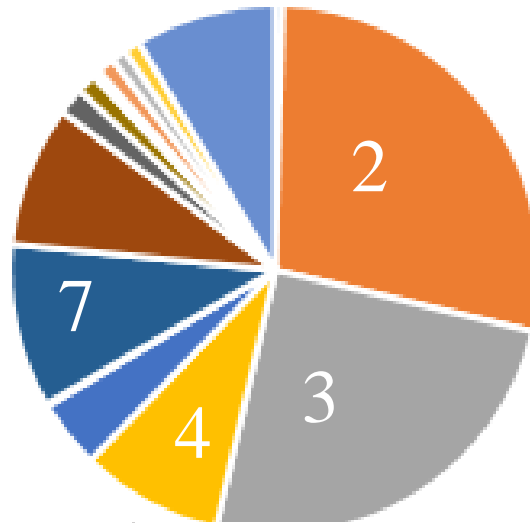
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- 13 ■ 14 ■ 15 ■ 16 ■ 17

Average expenditures of Incorporated Societies

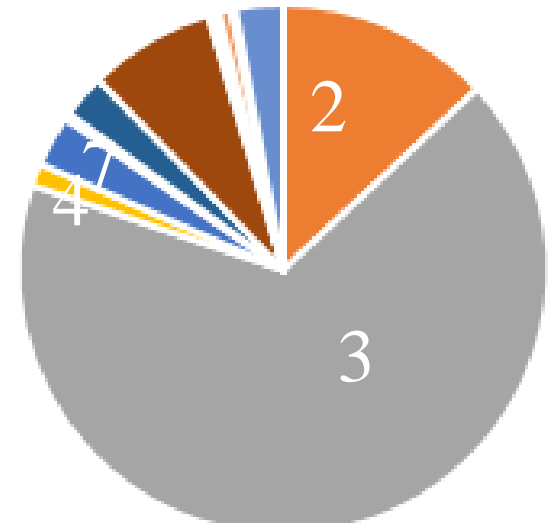
Expenditure Composition for Tier 4 Inc Societies



Expenditure Composition for Tier 3 Inc Societies

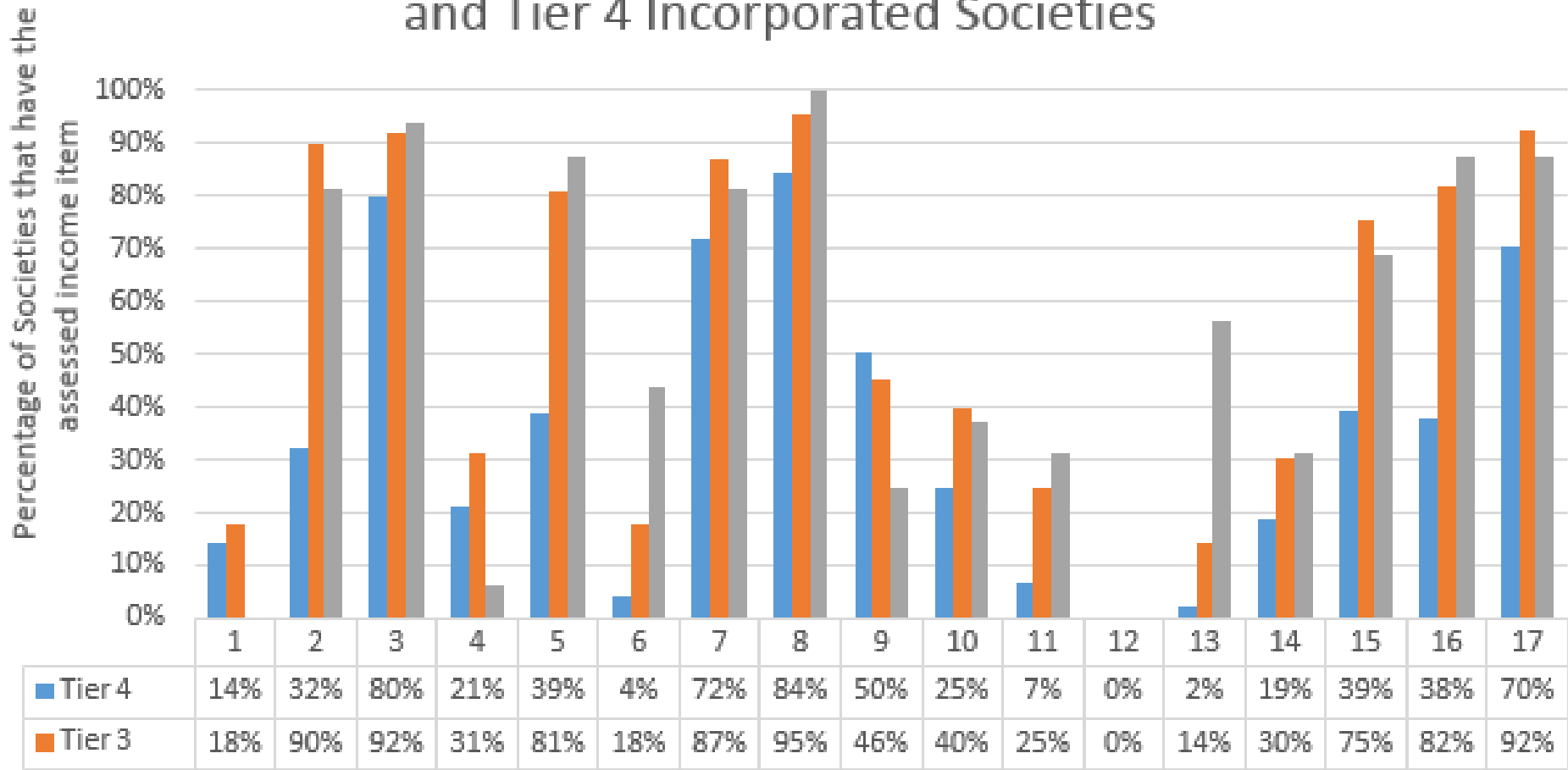


Expenditure Composition for Tier 1 & 2 Inc Societies



2	Staff costs	9.9%	28.3%	13.1%	4	Costs of goods sold	10.4%	8.7%	1.4%
3	Service delivery costs other than staff	27.2%	24.9%	67.1%	7	Rent and building costs	19.4%	10.0%	2.7%

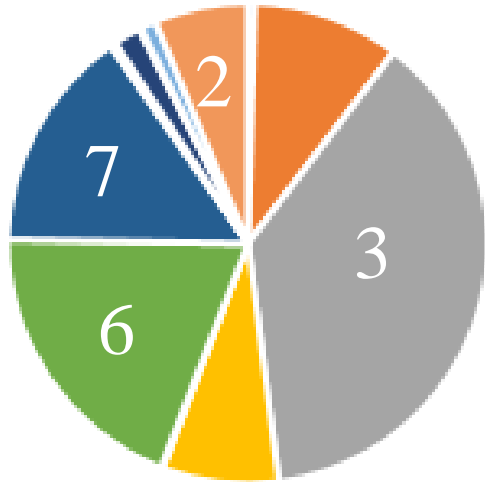
Figure 7: Comparison of Expenditure for Tier 1 & 2, Tier 3 and Tier 4 Incorporated Societies



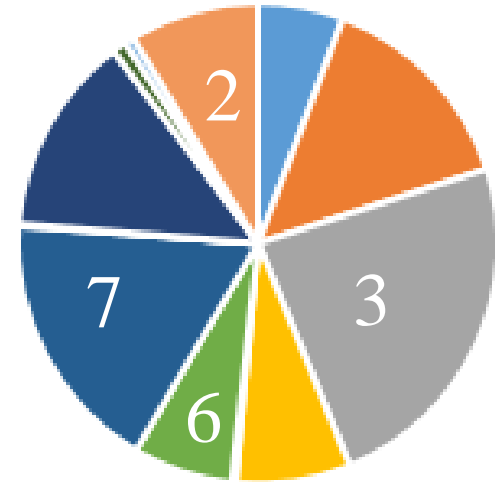
1	Direct cost of fundraising	5	Depreciation	9	Affiliation Fees	13	Bad & doubtful debts
2	Staff costs	6	Loss on sale/ revaluation	10	Governance Costs	14	Grants paid
3	Service delivery costs other than staff	7	Rent and building costs (including utilities)	11	Lease payments	15	Interest paid, debt servicing costs and bank fees
4	Costs of goods sold	8	Admin/Overhead costs	12	Expenses as a budget holder for another org	16	Assurance Costs

Comparing Inc Socs to Charities

Expenditure Composition for Tier 4 Inc Societies



Expenditure Composition for Tier 4 Charities



2	Staff costs	9.9%	14.2%
3	Service delivery costs other than staff	37.6%	23.8%

6	Rent and building costs	19.4%	6.7%
7	Admin/Overhead costs	15.0%	17.7%

Balance sheet items

- **Larger incorporated societies have more:**
 - **Debtors (28% in tier 4, 77% in tier 3 and 94% in tier 1 & 2);**
 - **Investments (6% in tier 4, 13% in tier 3 and 56% in tier 1 & 2);**
 - **Employee related liabilities (2% in tier 4, 26% in tier 3 and 50% in tier 1 & 2);**
 - **GST payable (9% in tier 4, 48% in tier 3 and 63% in tier 1 & 2);**
 - **Tier 3 have a significantly higher borrowings (bank loans etc.) (30% in tier 3 compared to 7% and 13% in tier 4 and tier 1 & 2 respectively)**

What will the Bill require for financial reporting?

- **S. 83-84 6 months to file after year end**
- **Financial reports must be prepared under XRB Standards**
 - **i.e. Tier 1 & 2 (Expenditure > \$2 million) PBE IPSAS/PBE IPSAS RDR**
 - **Tier 3 (Expenditure >\$125,000 and <\$2 million) Simple Format Reporting Standards Accrual**
 - **Tier 4 (under \$125,000 in expenditure) Simple Format Reporting Standards Cash.**

Proposed audit requirements

- **The ED suggests no real change**
 - **Registered Charities with annual revenue > \$500,000 a review and >\$1 million an audit**
 - **If not publicly accountable – Assets >\$60 million or annual revenue >\$30 million need an audit**
- **But for members who want one... what is the cost and availability of alternatives?**

Possible Issues with the ED

- **Reporting entity – see PBE AG A8**
 - **Affects tier**
 - **Audit requirements**
 - **Consider related parties**
- **Branches currently part of incorporated societies will be grandfathered, but new branches not**
- **Tax accounts \neq General Purpose Financial Reports**
- **Will the register be active?**

Summary

- **Incorporated Societies are varied but share similar types of accounting transactions**
- **The smallest may need extra help to comply with accounting (and other) requirements**
- **It is imperative that the reporting entity be clearly defined and that the accounting, regulatory/registry and legal definitions be the same**