

From: adam Yates
Sent: Friday, 6 July 2012 1:31 p.m.
To: *Financial Reporting
Subject: FW: Submission for Auditing and Assurance of larger registered entities

Background:

I am the Chief Executive Office of a group of entities, two of which are Registered Charities. Our Principals have created the Charities as they wish to endow a proportion of their assets as an enduring legacy for Charitable purposes. The charities are privately controlled for the Charitable purposes by the Principal's and no funds are sought from the public. The only sources of funds for the Charities are directly from the Principals and from investment and trading operations within the Charities.

I am a Chartered Accountant.

Question 1.

We concur with the problem statement.

Question 2

We concur with the objective of balancing the benefits associated with the quality and reliability of the financial Statements. However, we disagree that the best balance has been found with the proposals contained in the document.

Question 3

We do not have any comments on the description of the options.

Question 4

We DISAGREE that only large charities should be required to have an assurance engagement completed. In our view the distinction is not one of size but of accountability. Size is merely a useful descriptor for the type of assurance to be obtained. This is evidenced in the current regulatory regime for reporting for commercial entities where the requirement to complete assurance engagements is based on public accountability and not size.

Currently, there are three main types of entities which are required to have assurance engagements:

- Issuers of securities to the public.
- Overseas registered companies
- Entities with a special legislative mandate. E.g. Retirement Villages.

While all other entities are required to prepare accounts which comply with GAAP they are not required to be audited, regardless of size. Many such entities are vastly larger than the ones required to have assurance engagements but do not do so.

These entities are required to have assurance engagements as they have a public or specific reporting responsibility by virtue of the nature of their operations. While all Charities are for public benefit, not all require public accountability. Our operations are accountable to the public on the basis that they are for public Benefit. However, the Charities Commission has been appointed specifically to administer and oversee this requirement. It is not a function of the public to do this.

The public are entitled to have confidence that when they have entrusted funds to a charity that the charity has fulfilled it's obligations in respect of those funds. An assurance engagement can provide some of that confidence. However, where the Charity has not and does not receive funds from the public or public entities, there should be no obligation for the Charity to report to the public. Consequently, the assurance engagement provides no greater or lesser assurance and therefore is of no benefit.

Question 5

We concur that, when an assurance engagement is mandatorily required, size is a suitable basis and large entities should be audited.

Question 6

We DISAGREE that the measures for determining the tiers should be operating expenditure. Since the objective to balance the benefits associated with quality of financial statements, it will be important to ensure that all entities have the appropriate assurance provided.

Under the commercial regulatory regime there are multiple bases applied for determining the tiers for the different reporting requirements. Charities regulations should do so similarly.

As an example, there are Charities which receive significant funds from the public (or public entities) but do not have large operating costs. These Charities should be required to complete appropriate assurance engagements to provide some assurance that the monies from the public are being applied for the purposes to which they were given.

Question 7

We prefer a variation of option B. In our view, persons who are not sufficiently familiar with GAAP and trained in the provision of assurance will not be able to provide any assurance. We note that in the commercial field financial statements are generally prepared by qualified accountants or skilled preparers of accounts and yet the statements are frequently amended during the assurance engagement because the auditor or reviewer has a specialised level of knowledge than the preparer. To allow non specialists to provide assurance will be a case of the "the blind leading the blind."

Question 8

We DISAGREE with the tentative proposal. We propose that there should be a multi tier approach to determining when and which type of assurance is required:

Test 1: If the charity receives or solicits funds from the public or government then an assurance engagements will be required.

Test 2 where that charity receives more than \$200,000 from the public or government.

Test 3 where that charity receives less than \$200,000 from the public or government.

Question 9

We concur that there should be a mechanism for the dollar amounts of the thresholds should be increased from time to time to counter the effects of inflation.

Question 10

No Comments.

Question 11

We concur that introducing a Review Engagement into law would widen the use of this type of assurance.

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