

Fit For Purpose Financial Reporting

*If improving accountability & transparency is the question –
Is auditing the right answer?*

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Chairman, Audit Director

Agenda

- The problem
- Why do organisations need an audit?
- What an audit is and isn't
- The Charities Commission & audits
- What's changing & impacts?
- Alternatives to audit
- What organisations need to do
- Open forum discussion

The Problem

- Audited financial statements are often requested from grant recipients and potential grant recipients as a matter of course.
- An historical expectation exists for an audit of not-for-profits.

Why a problem?

- Cost
- “We can’t find an auditor”
- Audits not well understood
- A sledgehammer looking for a tack?
- Audited financial statements may not be providing the detailed assurance desired



Audits are good...but need to make
sure it is the appropriate service
for the organisation's needs



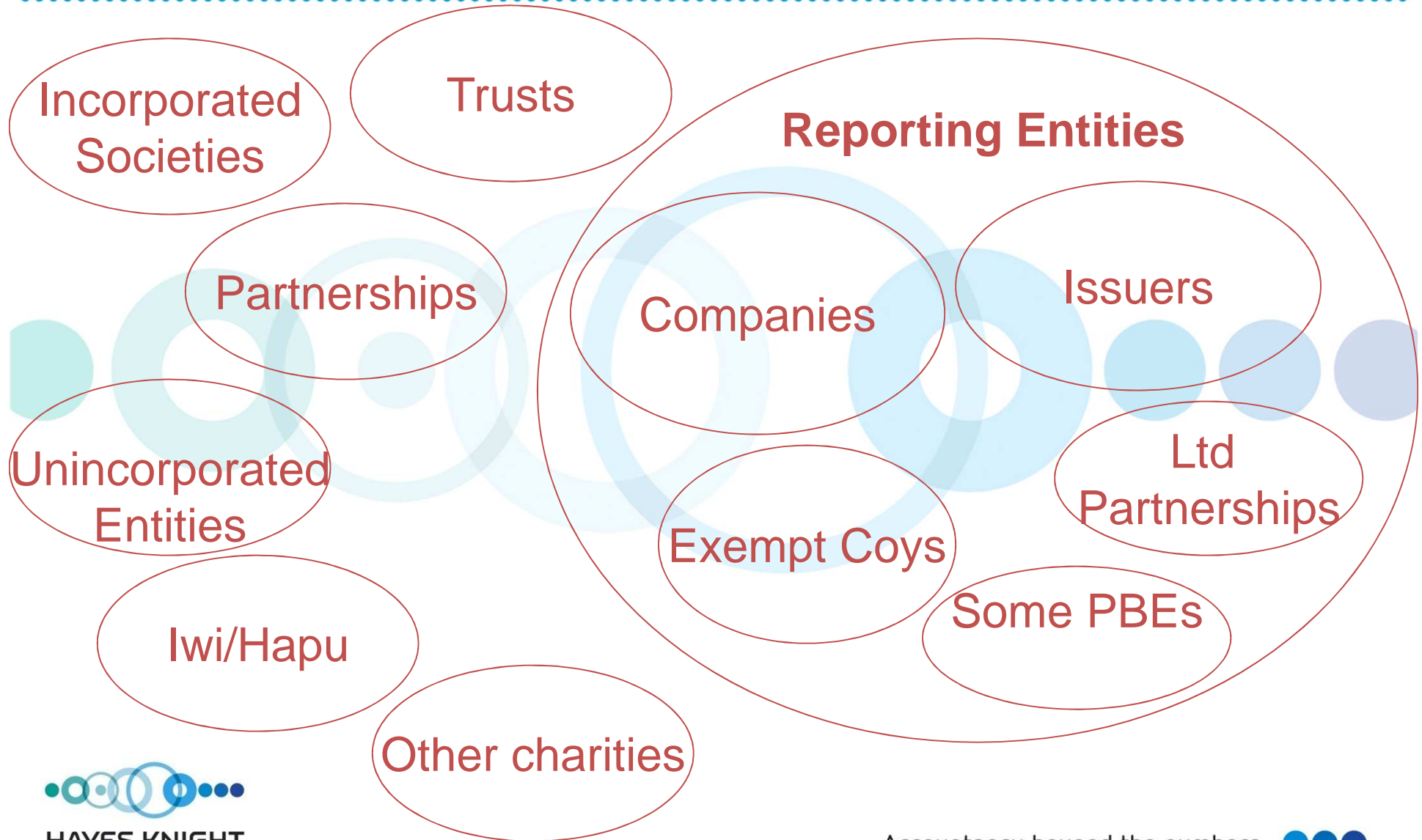
Why do organisations need an audit?

- Legislation
- Constitution, Rules, Governing body etc
- Funding body
- Professional obligations

The NFP Sector



Financial Reporting Environment in NZ



What determines how NFPs report?

- Legislation
- Constitution, Rules, Governing body etc
- Funding Body
- Professional Obligations

...and History!

Legislation

- Financial Reporting Act 1993
 - Specifies GAAP
 - Applies to reporting entities = Companies or Issuers
 - Exempt companies
- Companies Act 1993
 - Applies to companies and charitable companies

Legislation contd.

- Incorporated Societies Act 1908
 - Have to prepare annual financial statements
 - Doesn't specify accounting i.e. GAAP
 - Doesn't require an audit
- Charitable Trusts Act 1957
 - No financial reporting or audit requirements
- Charities Act 2005
 - No financial reporting or audit requirements

Other requirements for an audit

- Constitution, Rules, Governing body etc
 - Can change
- Funding body
 - Can discuss if most appropriate assurance
- Professional obligations
 - Best practice but not essential for organisation

Who can be an auditor?

- Unless specified by:
 - Legislation
 - Constitution, rules, governing body, etc
 - Funding body
- **Anyone!**
- Implications...

What an audit is

- Designed to provide reasonable assurance that financial statements are free from material misstatement.
- If an NZICA member; then required to comply with all 36 mandatory auditing standards

What an audit isn't

- An audit of financial statements is not (unless scoped into the terms of the engagement):
 - Primarily designed to detect fraud
 - Specific assurance as to how a grant has been spent
 - Any sort of assurance of financial viability
 - A sign-off on internal systems

The Charities Commission & Audits

- Have the power to regulate charities
- Require annual financial statements for transparency
- No format mandated
- No audit mandated

The Future?



The Big Picture - General Purpose Financial Reporting

- The move to adopt global standards
 - International Financial Reporting Standards (IFRS)
 - International Standards of Auditing (ISAs)
- Impact = increased complexity
- GAAP defined in Financial Reporting Act
- One size doesn't fit all any more
- MED & ASRB discussion documents

Financial Reporting Statutory Framework

- Who should report their financial statements? – MED review
- What should they include? - ASRB review
- Proposed move to “horses for courses” model
- Different standards for different types

NZ GAAP (GPFR)

Financial Reporting Act & Other Acts ?

Not for Profit

For Profit

NZ PBE
Accounting
Standards
(IPSAS)

NZ PBE
Accounting
Standards
(IPSAS)
or
Differential IPSAS

IFRS for SMES
or
Differential IFRS

IFRS

Simple Format
Financial Statement
Reporting

Special Purpose Reports

General purpose financial reports reqd

- Registered charities and other entities which raise funds from the public
- “Large” NFP entities (\$20 million or more expenditure)
- Entities with 10 or more members unless they opt out
- Small entities with expenditure under \$20,000 exempt from reporting

What's changing in the audit world?

- New standards for auditors
 - International audit standards
 - Accounting standards
- Increased Practice Review rigour
- Government oversight , regulation and registration coming
- Standard setting moving to Government
- Greater liability (criminal as well as civil)

Who should set audit & assurance stds?

- Currently within Institute
- Perception of independence issue
- Out of line internationally
- External Reporting Board (XRB)
 - NZ Accounting Standards Board
 - NZ Auditing & Assurance Standards Board

Implications

- Less commercial entities to audit in NZ?
- Less auditors?
- Two tiers of auditors?
- Increased PI insurance costs
- Uninsured auditors?
- Likely adverse impact on NFP auditors

Other Assurance Options

- Review engagement
 - Lesser level of independent opinion assurance
- Agreed Upon Procedures
 - Specific procedures and factual findings
 - Ability for funders to be specific
- Compilations
 - Someone qualified and independent preparing the financial statements

Other Assurance Options

- If performed by NZICA members then specified by standards
- New assurance standards for assurance engagements other than audits or reviews of historical financial information
- Different reports
- Key is to understand scope at outset

What NFP organisations needs to do

1. Decide what their objective is in monitoring/accountability
2. Understand any mandatory requirements
3. Consider the available assurance and other options
4. Have a threshold for audit requirement
5. Specify who should carry out the work



Accountability & Transparency Issues



Accountability & Transparency

An effective charity understands that the public has a valid interest in it, and manages its accountabilities to its stakeholders and to the public in a way that is timely, transparent, and understandable.

Simple Format Financial Statements

What should Simple Format NFP Financial Statements contain?

- Working group currently in place

Key Messages Needed

- Who we are & why we exist
- What we do
- This year's successes
- What we planned and what we achieved
- The year ahead and how you can help
- *Reputation is not in the balance sheet*

The opportunity

- Need to develop improved performance communication:
 - Financial
 - Non-financial
- Appropriate standards fit for purpose and size
- Input required from all stakeholders

Good quality financial statements

- Understandable
- Quality control basics
- Clear notes explaining significant or unusual items
- Listing of significant donations
- Budget figures
- Who prepared them?

Funding Body Thoughts

- Growing focus on the outcomes of projects
- Multi-year funding
- Sustainability a greater concern

Working Group Initial Views

NFP general purpose financial reports should cover:

1. “Why we bother” --- objectives or outcomes
2. “What we did” --- goods and services provided
3. “What did it cost?” --- expenses incurred
4. “How was it paid for?” --- revenue
5. “What next?” --- financial sustainability



Discussion



Thank you

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