

INTRODUCTION

Welcome to our latest Plus Audits newsletter.

Thank you for taking the time to read this. Auditing is by nature an inherently backward looking process. By writing these newsletters we hope that we are taking proactive steps to assist our audit clients and inform them about matters they should be aware of before we come across them rather than after the event as part of our audit process.

We note that any newsletter can only be general in advice and if there are any matters that you would like further clarification of or steps you plan to take as a result of reading this newsletter, we first recommend that you make contact with us to discuss.

CHARITIES COMMISSION

As many of you will be aware the Charities Commission is up and running and accepting registrations from organisations such as yourselves. The thrust of the change to a charities watchdog is intended to bring greater transparency to the charitable sector.

The registration process, whilst a little bit demanding, is not overly complicated and if you follow the guidelines and obtain the information you need and have it with you before you start filling in the registration form you should get through in one go.

We have been pointing out to most of you as part of the audit process our view as to whether you should be registered or not. By way of general guidelines we would suggest that the following organisations would need to register.

1. Charitable Trusts.
2. Incorporated Societies whose principle goal is for community benefit.
3. Religious Organisations.
4. Any other charitable type organisations or entities that currently have a tax exemption.

The following types of organisations probably do not need to register.

1. Sports Clubs.
2. Incorporated Societies where all income is generated from the "circle of membership" and is used for members purposes.
3. Family trusts that do not have a charitable purpose.

The benefits of registration are essentially the tax exemption. The Inland Revenue Department will cease to monitor the tax status of charitable organisations and this will now be managed by the Charities Commission.

You will be required to file annual financial statements and your audit report (if applicable) with the Charities Commission every year. Ongoing registration is dependent on this. If you do not register with the Charities Commission or they decline your application then the tax exemption you have enjoyed from the Inland Revenue Department will cease on (date) and from that point on you will be liable for income tax on your profits.

We have schooled ourselves up on the Charities Commission and the registration process. If you need assistance with this we are available to help but we note that the Charities Commission website www.charities.govt.nz is full of information that is fairly easy to read and understand and we would suggest that you visit this site soon.

They also have a newsletter registration option which after you register they will send you emails of updates and further information as it comes to hand. It is very important to note that registration is an overt process. If you do nothing then you will not be entered into the Charities Register.

IFRS

IFRS stands for International Financial Reporting Standards. For most of you these take effect in the 2008 financial year. Essentially what has happened is that the New Zealand Institute of Chartered Accountants has adopted International Financial Reporting Standards. The thrust of this change is to ensure better comparability firstly within New Zealand of the financial statements of various organisations and secondly to ensure that financial statements prepared for organisations in New Zealand and internationally are prepared in the same manner.

For many of you this will make very little difference to how your financial statements are prepared and in some respects it will make readability of your financial statements easier because the statement of financial performance becomes an income statement and your statement of financial position becomes the balance sheet and I note it is pleasing to see a return to the old report names as I believe they are easier for people to understand.

For some of you financial reporting just became harder. Those of you that have your financial statements prepared by another Chartered Accountant will find that they will manage this change for you. Where we assist your Treasurer with the layout and presentation of your financial statements, there will be some changes but we will update those clients closer to the change taking place.

Again if you have any queries in respect of this please do not hesitate to contact us to discuss.

INTERNAL CONTROLS

You will note for your next audit (if not already) you will have received an Internal Control Questionnaire from us. This questionnaire asks questions across several topics as to how your organisation tracks its money and questions about minutes, payroll, banking, bill paying, meetings and the like.

It is set out in the nature of a questionnaire rather than a list of internal controls but as you work through this checklist as part of your audit you will see some items in here that you probably do not currently have in your organisation.

We do understand that separation of duties which is a valuable internal control is difficult for organisations that have small or no staff. We understand that finding enough people to come to a meeting every month, let alone a second person to work for free as a Co-Treasurer or in your office is problematic. However separation of duties in particular is a valuable internal control. It reduces the opportunity for error and the opportunity for fraud.

Essentially it would take two people to make the same mistake or two people to collude before things could go awry in a financial sense. The reason we set out to establish your internal controls is this allows us to better evaluate the risk in your audit. By risk we mean the risk that there could be an error or material mis-statement in the financial information presented to us. The better the internal control the lesser the risk and inversely the lesser the internal controls the greater the risk of error.

Where we have evidence that a robust system of internal controls is in place and where we have been able to test and verify that these internal controls have worked we can do less ticking and checking of invoices to bank statements, to cheque butts than we would need to do for an organisation that had no internal controls.

If you would like to find out more about internal controls that could apply to your organisation please do not hesitate to contact us. There would be some useful guidance you can take from the questionnaire.

BANK AUDIT CERTIFICATE

Most of you will have noticed that we now request that your bank report directly to us via a Bank Audit Certificate, what money you had in your bank accounts at balance date. I

have had a comment passed that surely we can just look at the bank statement to see what you had in the bank account and this is of course a very valid point.

The Bank Audit Certificate is really being used by us to ensure that all bank accounts in the name of your organisation held with your bank are known by us. There have been instances in this audit practice where additional bank accounts have been identified as part of the Bank Audit Certificate process. By using these we are able to ensure that your accounts show all of your bank balances and this is why we request them from your bank every year.

MINUTE KEEPING

Since our last newsletter and over the past couple of years we have noticed a steady and pleasing improvement in the quality of minutes presented to us by our audit clients. I wish to repeat again that at the end of the day the minutes form a valuable piece of audit evidence as to decisions made by committees at their meetings. They also show us that the committee has approved expenditure made by the organisation where financial reports that are tabled are also included in the minutes by way of discussion and attachment.

It is important to note that as your auditors we are not passing judgement on how your organisation spends its money (unless you were funded for one purpose and spent it for another). Our primary responsibility is to make sure that the accounts that you distribute to your members/beneficiaries/shareholders show a true and fair view of your activities for that year.

As long as the readers can understand how you spent the money then they can at Annual General Meeting time raise any concerns that they may have.

Auditors are not whistle blowers and work for your organisation essentially the stakeholders. This practice has never had cause to report to any outside agency any

issues it has identified as part of the audit and we hope we are never put in a situation where that would be necessary. I can only imagine this would be done in circumstances where the greater community good would be served as a breach of confidentiality such as this would never be undertaken lightly.

AUDIT COSTS

We will write to most of our audit clients directly in the coming months about this issue which is that the cost of operating our audit business has increased in the last few years particularly in the areas of payroll and insurance. Audit Standards are becoming more and more robust and therefore time consuming as well. It does mean that most of our audit clients will have inevitable increases in audit fees although we have tried wherever possible to find additional efficiencies within our audit practice to help combat these increases.

PLUS AUDITS TEAM

As some of you will be aware, Nicky and Emily who currently work for Plus Accountants are now both working part-time for Plus Audits. Those of you that come to meet them in the coming months will I am sure agree they are both two highly intelligent and skilled young women who are a real asset to the audit side of our business.

To liven things up at the end a bit of humour at the accountant's expense.

Why did the auditor cross the road?
Because he looked in the file and that is what they did last year.

What do accountants suffer from that ordinary people don't?
Depreciation.

And lastly,
There are three kinds of accountants in the world,
Those who can count and those who can't.