

# We are a Not-For-Profit: Do we need an Audit?

## Do we need an Audit?

**NOTE: The thresholds in this article have been updated to reflect 1 January 2022 changes. Previous thresholds are shown in (brackets).**

The majority of New Zealand's registered charities (a.k.a not-for-profit or NFP) do not need to be audited according to the Charities Act 2005, but you will need to also check your trust deed, charter or constitution, as some charities may include an audit requirement in its rules. Also, some grants have a condition attached that the financial statements must be audited or reviewed.

If **total operating expenditure** for the two previous accounting periods **exceeded \$550,000 (\$500,000)**, your charity is considered medium-sized and your financial statements must be *reviewed* or *audited* by a qualified auditor. If **total operating expenditure** for the two previous accounting periods **exceeded \$1.1 million (\$1 million)**, your charity is considered large and your financial statements must be *audited* by a qualified auditor.



## What's the Difference between an Audit, a Review and a Compilation?

*An Audit* gives a high or reasonable level of assurance that the financial statements are free from material errors or fraud. It is not an absolute assurance though; auditors cannot guarantee that there is no fraud or error. Auditors are independent and are not involved in the compilation of



financial statements, so they can objectively give their expert opinion. Auditors will conduct detailed testing, calculations, analysis and observations to reach their conclusions.

*A Review* gives a limited assurance that the financial statements are free from material errors or fraud. Reviewers do not go into as much depth as auditors, so they give their conclusions in a negative form. In simplistic terms, it would be saying “Nothing has come to our attention to cause alarm.”, instead of saying “Everything looks fine.”.

*A Compilation* is neither an audit nor a review, so the preparer does not give any assurance about detecting material errors or fraud. If the financial statements have been prepared by a chartered accountant, they will bring any issues to your attention if they notice them, but that is not their purpose.

## Which Reporting Standards do we follow?

There are four Tiers of Reporting Standards for NFPs. Tier 1 is the most complex and Tier 4 is the simplest. The expense thresholds relate to the two previous financial years.

Tier 1 – Over \$30m annual expense or public accountability (people give you cash or assets to hold for them as one of your main activities). Accrual basis accounting.

Tier 2 - \$2m - \$30m annual expenses. Accrual basis accounting.

Tier 3 - \$140k (\$125k) - \$2m annual expenses. Accrual basis accounting.

Tier 4 – under \$140k (\$125k) annual operating payments. Cash basis accounting.

## How Can I Prepare for an Audit?

You will be contacted by your auditor to book in a suitable time for the audit. The people involved in managing the finances and preparing the reports should be available to meet with the auditor during this time. You will need to have the following records available:

- Draft financial statements and supporting workpapers.
- Procedures manual outlining the internal controls for all finance activities, especially cash handling, invoicing, payments.
- Leases, grants and other contractual documents.
- Bank authorities.
- Minutes of board meetings, AGM.
- Read-only access to accounting software, including ledgers and payroll.
- Other documents requested by the auditor.

Set aside a space in the office for the auditor to work onsite, with internet wifi, printer/scanner.

## What Does the Audit Process Involve?

The auditor will plan the assignment and send your governance team an engagement letter, outlining the scope of the audit.

The auditor will visit you on-site, test the internal control system, gather data for analysis, meet with the finance and governance team. The auditor will follow the flow of source documents to record-keeping and reporting, and back again.



The auditor will also work off-site, analysing data, confirming changes to financial statements and prepare a management report for you, with key finding and detailed recommendations. When the financial statements are approved by the governance team, the auditors will issue their audit report for the members of the NFP. The audit report does not contain details like the management report, but a generalised statement of opinion.

## How Do We Keep Costs Down?

Make sure that you are reporting to the correct tier of reporting standards, and only get an audit or review if required. Document your procedures, have tidy systems that easy to follow. Have clear records that are easy to read and locate when the audit starts. Some NFPs have a folder with all the documents sorted systematically, others use cloud-based document management and accounting systems.

## Should We be Scared that We Need an Audit?

No, definitely not. Your not-for-profit wins if it is using its funds wisely for the betterment of its members and the wider community. The Auditor's work is to give assurance that this is being done.

Auditors take an educational approach, rather than a judicial approach, so you have a greater chance of getting things right next time.

- *Serena Irving & Pradeep Singh*

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