

On the Brink of Change:

a review of charities' financial reporting adequacy and the necessity for a new framework

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Outline

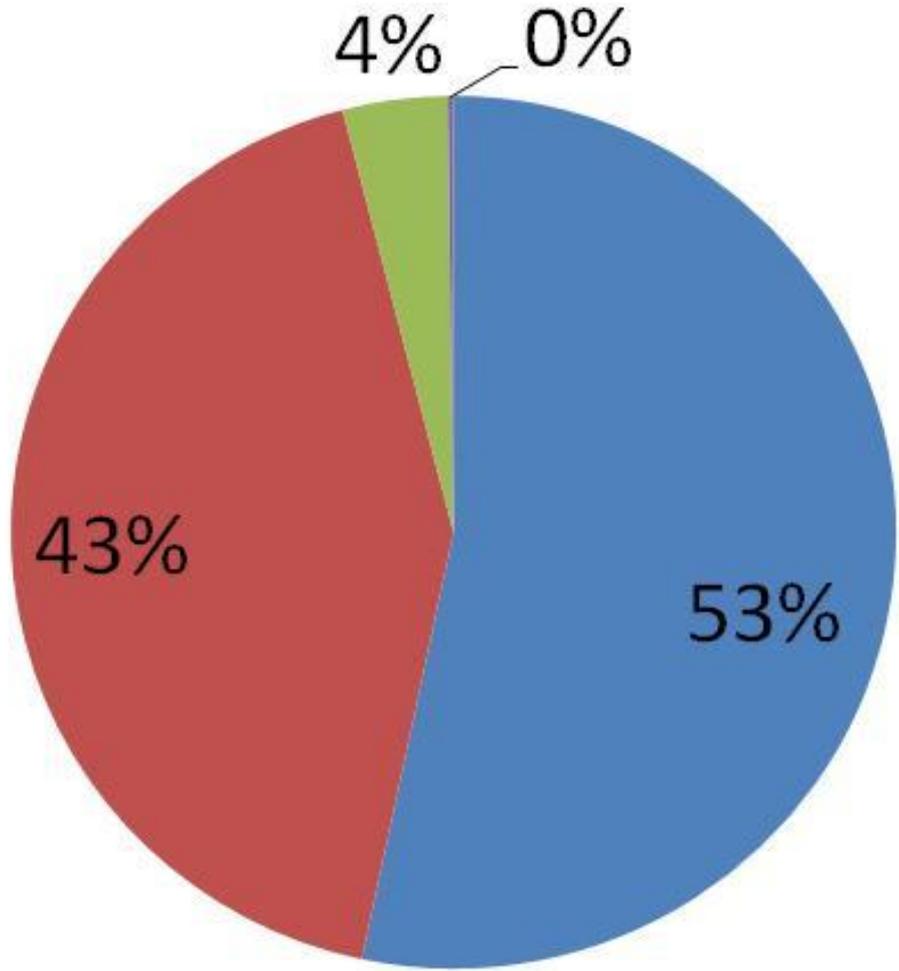
- Charities in New Zealand
- Financial Reporting in this context
- Filing adequacy
- Implications for change

New Zealand's charities sector

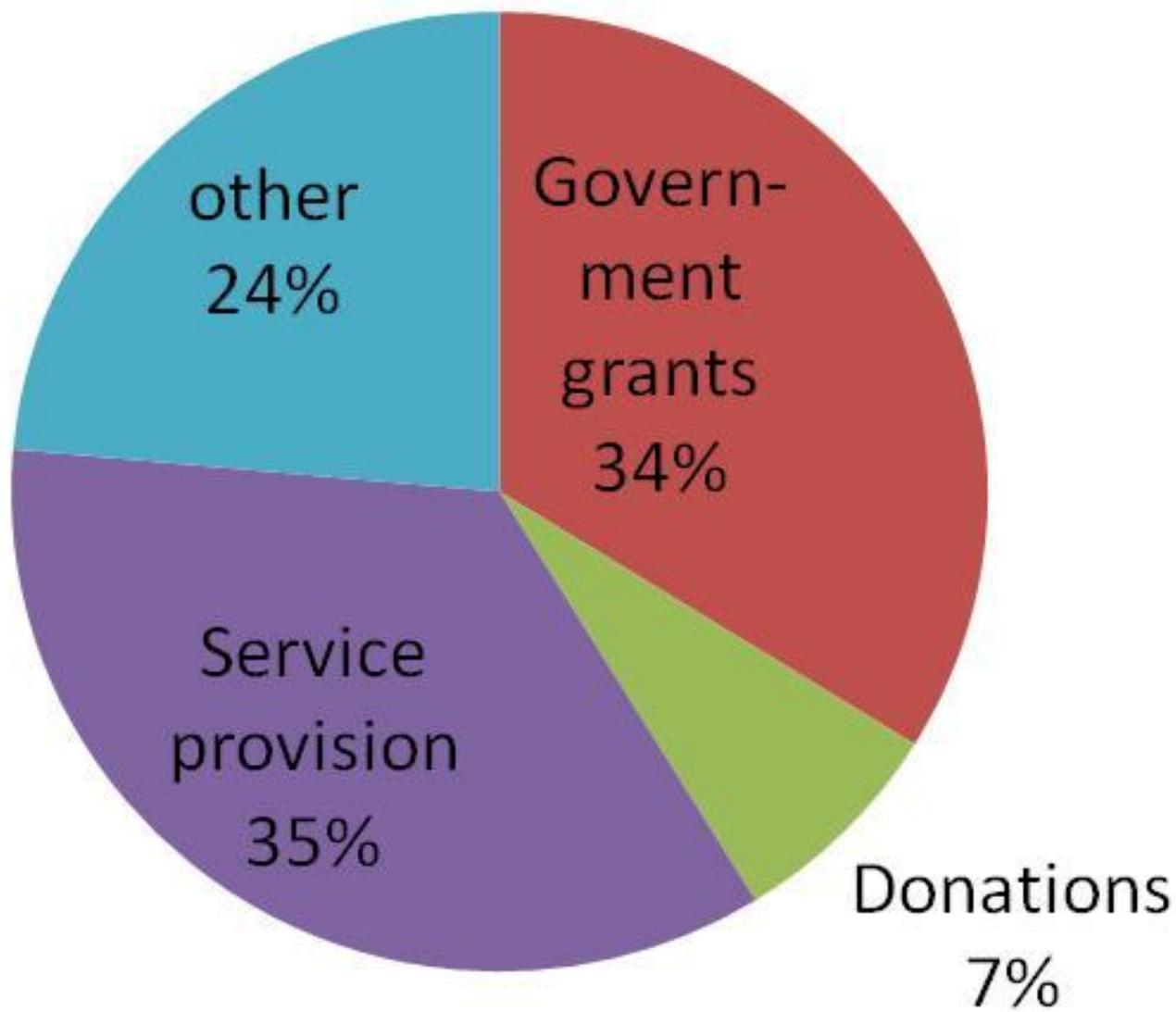
- 4 Heads of Charity - entity must either:
 - relieve poverty, advance education or religion, or any other matter beneficial to the community (Charities Act 2005, 5.1)
- Registered charities are significant economically (NZ\$14.2bn in income 2011)
- But they are diverse

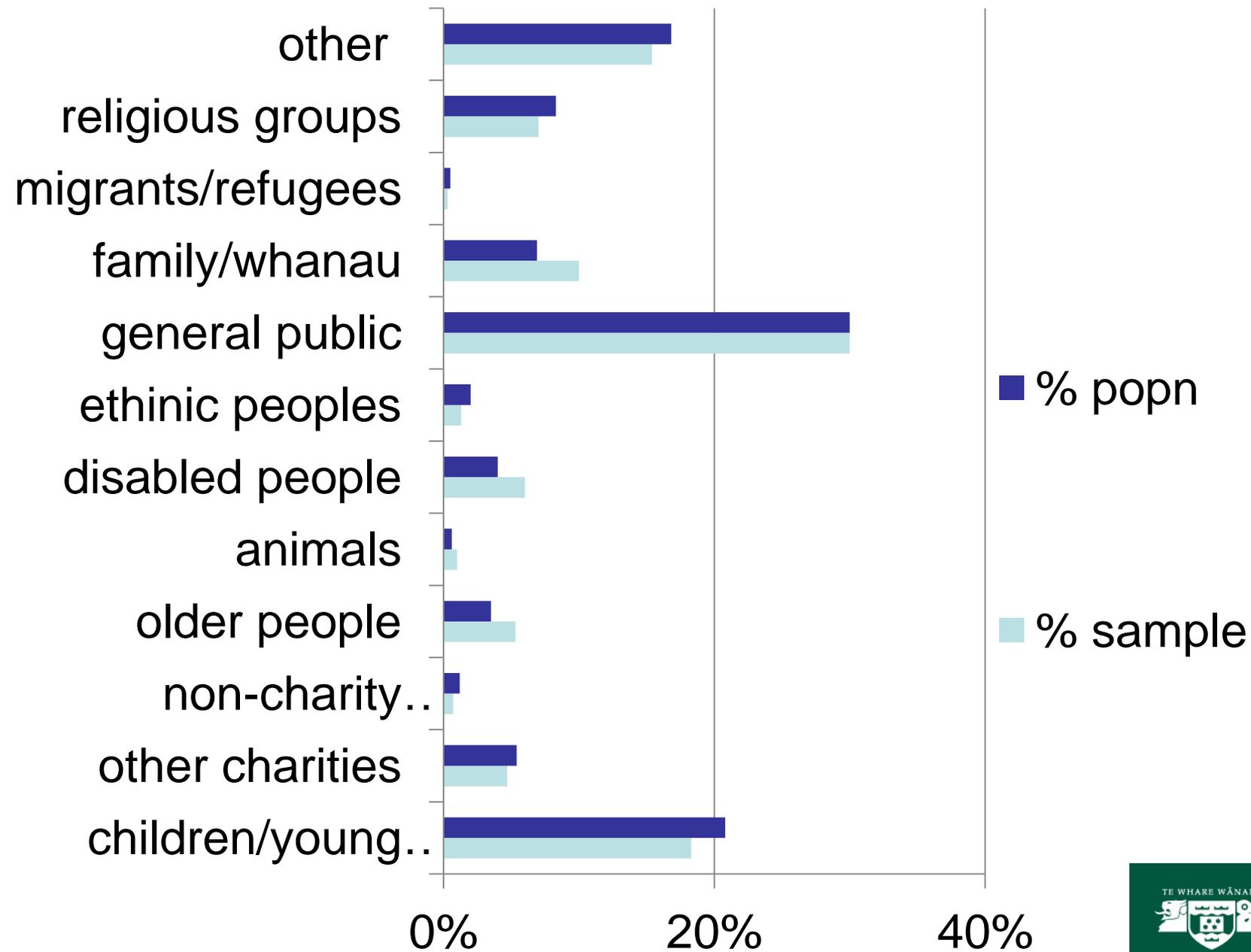
Expenditure

- < \$40,000
- \$40,000-\$2m
- \$2m - \$30m
- > \$30m



Income sources



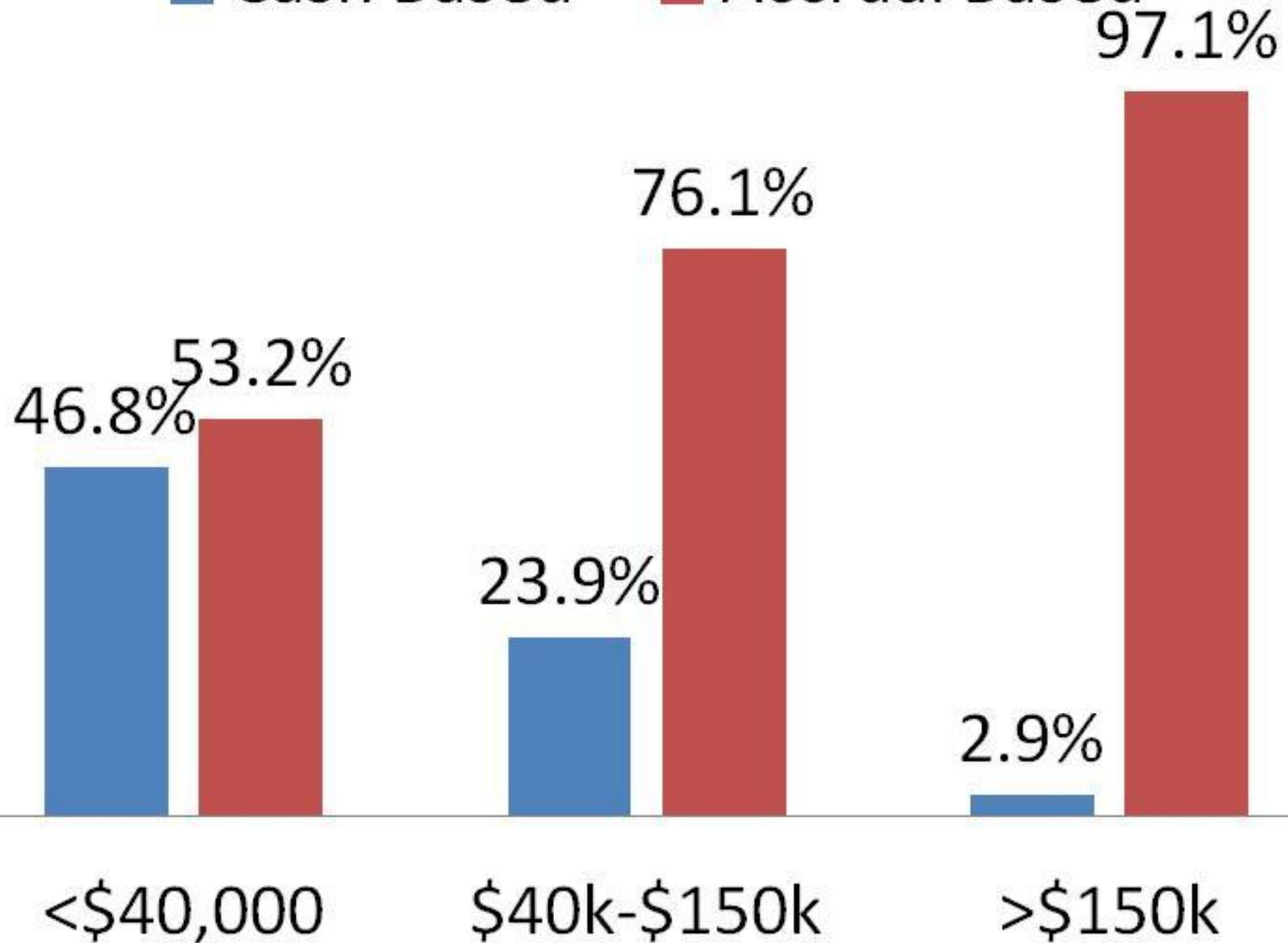


Efficacy of Charities register

- Research undertaken Nov 2010-Feb 2011
- Charities' summary pro-forma filings compared to underlying financial and narrative reports
- 300 charities randomly chosen from charities database
 - 150 small (expenditure <\$40,000)
 - 150 medium (expenditure >\$40,000 and <\$2m)
 - 69% charitable trusts, 30% incorporated societies, 1% companies

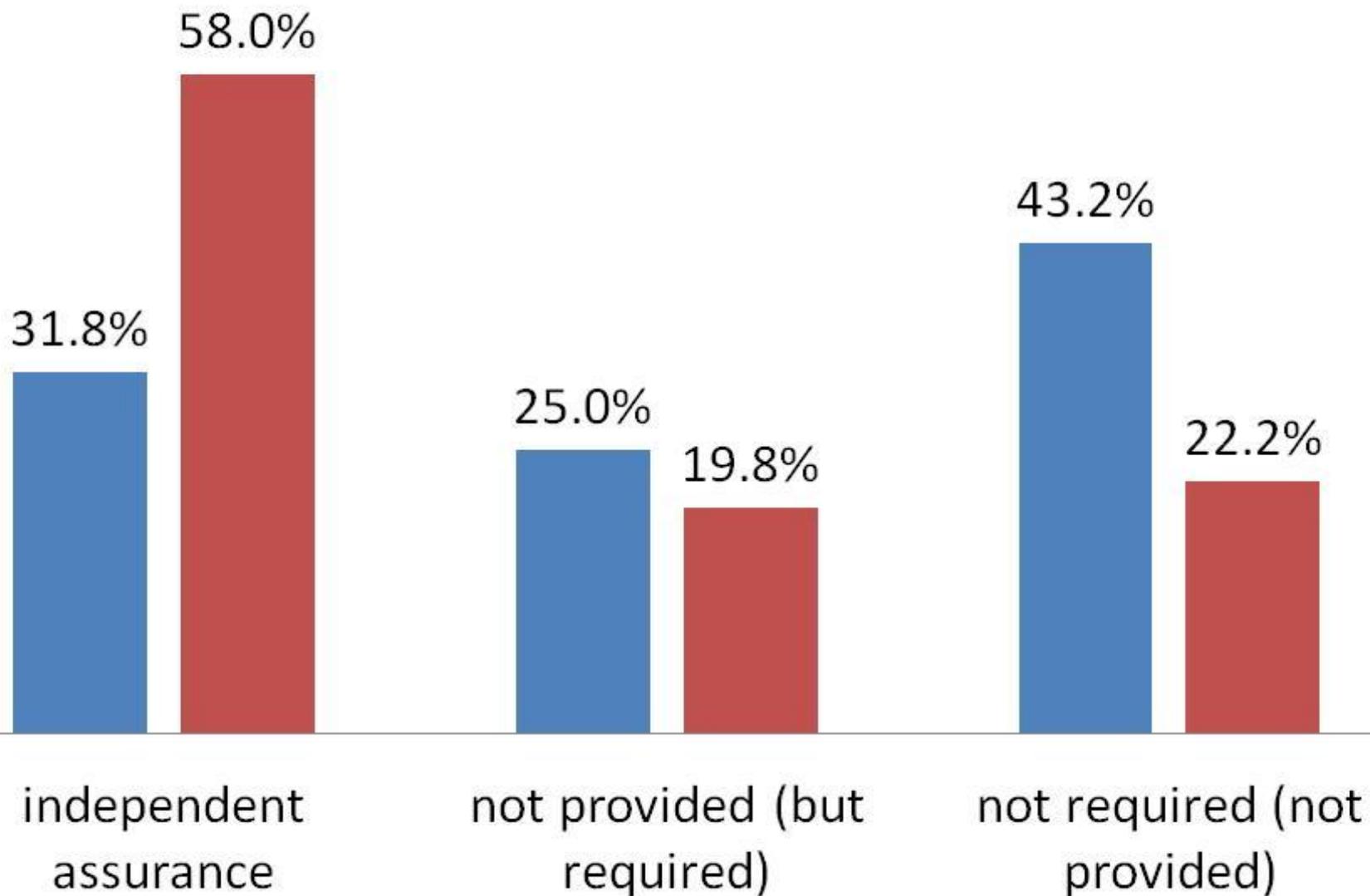
■ Cash Based

■ Accrual Based



■ Cash Accounting

■ Accrual Accounting

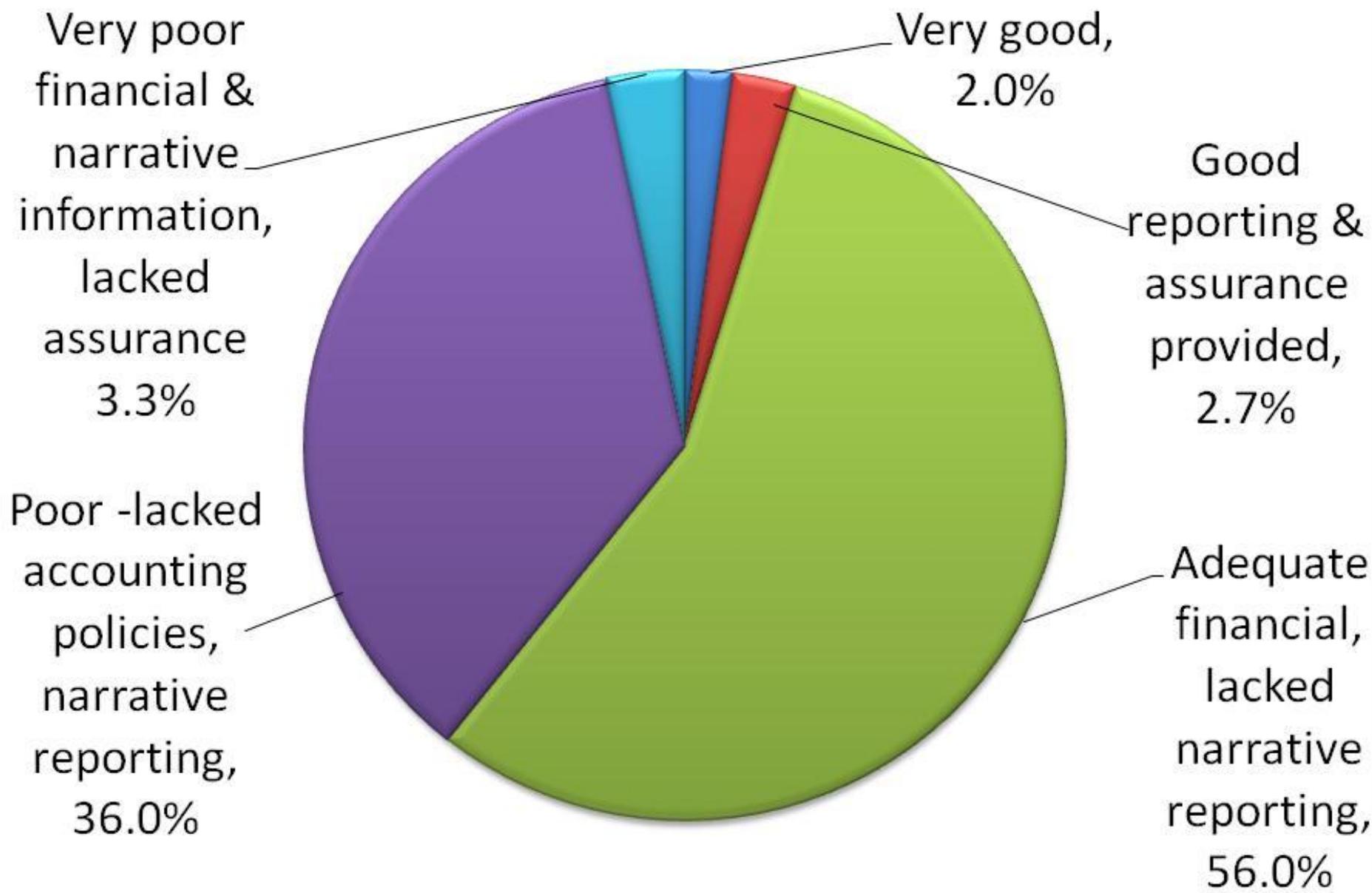


Assessing reporting practices

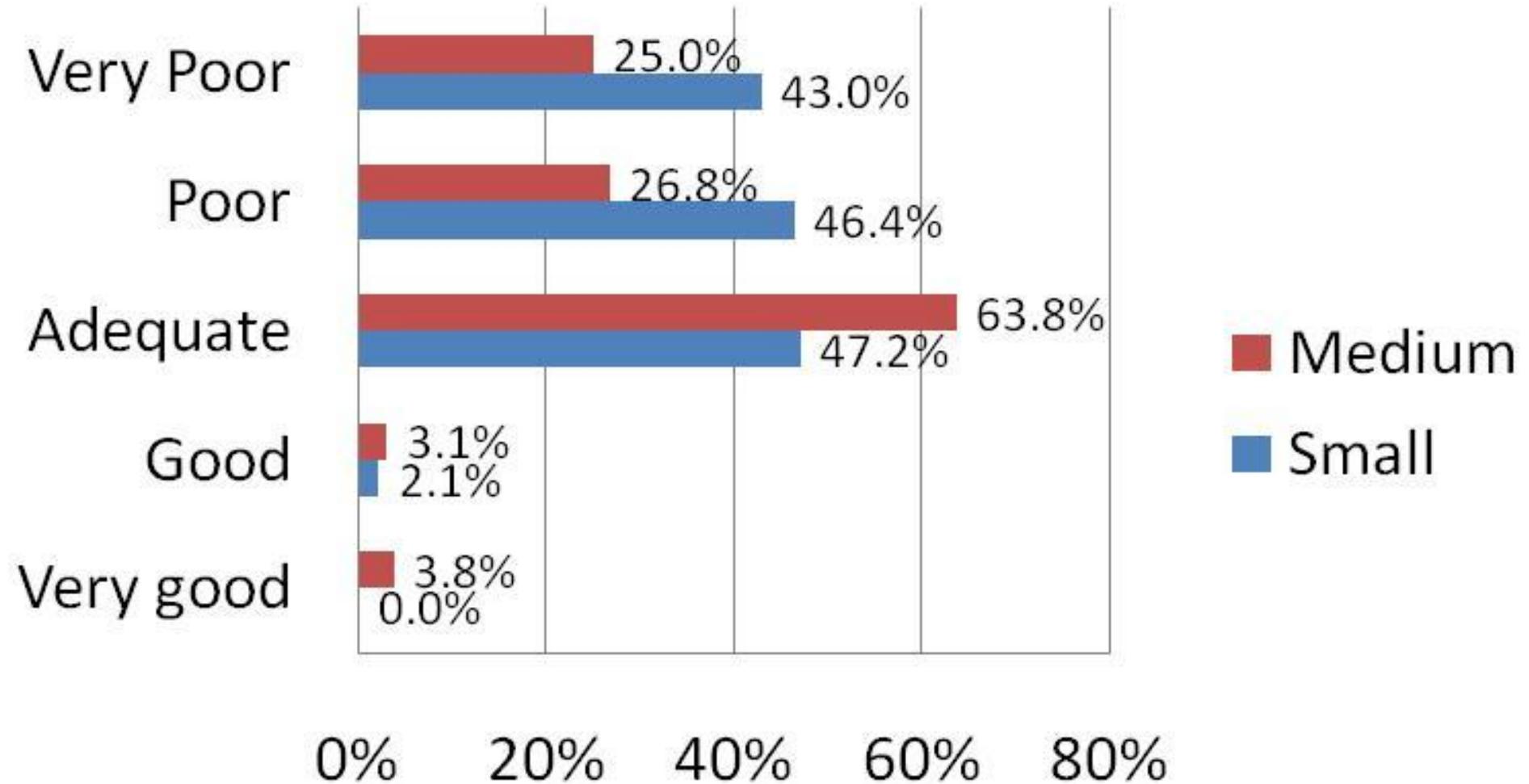
- Also analysed financial and narrative reporting as well as assurance
 - 65% of charities provided sufficient notes to understand accounts
 - 75% had adequate assurance (audit or review engagement letter)
 - 7% filed narrative non-financial information, 10% provided upon request

Charities Commission filings

- 25% of charities did not assess their basis of accounting correctly (preferred cash over accrual)
- 27% did not fill out the figures correctly
- Overall 34% did not file within the 6 months (medium sized charities were faster),
- 24% with missing figures



Quality of charities' reporting



Is change needed?

- Standards **are** required (and encouragement to follow them)
- Necessary for preparers to understand what they are doing
- ... and for users to demand better reporting
- Need to recognise charities may prefer to “do the work” rather than complete financial reports!

Conclusion

- New Zealand's Charities Commission is a relatively new regulator
- Regulatory change has been slow while the Commission has waited for new Financial Reporting Act
- Regulator, users and the profession need to force/encourage better compliance for higher levels of public trust and confidence