

Does my organisation need an audit or a review?

There may be legislative requirements if total operating expenditure for each of the previous two accounting period meets the following thresholds:

- If expenditure is below \$500,000 you do not legally require an audit or review. (However, please refer to below).
- If expenditure is between \$500,000 and \$1,000,000 you will require either an audit or a review.
- If the expenditure is above \$1,000,000 the entity will require an audit.

Registered Charities with total operating expenditure of less than \$500,000 are not required by law to have an audit or review. However, you may be required by your Rules (e.g. trust deed, constitution, or charter) or as a condition of receiving a grant to have your financial statements audited or reviewed. These charities may choose who performs the audit; it does not need to be a qualified auditor unless stated in your Rules.

However, Professional oversight by an independent experienced person can be well worthwhile. When the organisation engages an auditor to review its financial statements, it can also receive the benefit of an external expert providing recommendations for improvement of any internal control deficiencies it may identify. Many times an organisation does not have financial experts on the board. Having an independent set of eyes review the financial statements of an organisation provides some level of comfort to those charged with governance that their financial position is being fairly represented.

What is the difference between audit and review?

A Review has less work performed by an auditor and therefore generally a small fee. However, a review is less detailed work performed by the auditor as such provides less assurance.

	Audit	Review
Level of assurance	A reasonable or high level of assurance about whether the financial statements as a whole are free from material errors or fraud. Reasonable or high assurance is not absolute assurance.	Limited assurance about whether the financial statements as a whole are free from material errors or fraud. Limited assurance is less than reasonable assurance.
Report provided	Independent Auditor's Report Opinion is expressed in a positive form, e.g. <u>"The financial statements are free from material misstatement"</u> .	Independent Review Report Conclusion is expressed in a negative form, e.g. <u>"Nothing has come to our attention that causes us to believe that the financial statements are not free from material misstatement"</u> .
Nature of procedures	Procedures normally involve detailed tests of accounting records using techniques such as inspection, observation, confirmation, recalculation and re-performance, as well as inquiry and analytical review.	Procedures are primarily based on inquiry and analytical review.

As an audit may be cost prohibitive for an organisation, a reviewed financial statement is an alternative that still provides a level of accountability and transparency. Although a review is less in scope than an audit, a Qualified Auditor outside of the organisation is still providing some level of assurance that the financial statement are free of material misstatements. A review will help the board exercise its fiduciary responsibility for the organisation.

How do I get ready for an audit or a review?

Contact your audit/review service provider before hand and arrange the following:

Timing of the audit. (Charities have 6 months after their balance date to complete the audit and file their performance report with [Charities Services](#)).

- Provide the details of the contact person they will require liaise with.
- Ask them to supply a list of information that will require to complete the audit. This will mainly included the item as detailed below.

Information that may be required

1. A copy of the draft annual financial statements. (Liaise with the accountants, auditors or seek assistance if you need help preparing these).
2. Minutes for the year (originals or copies)
3. A copy of the general ledger (cash book where no ledger is used).
4. A copy of the trial balance at balance date
5. Bank statements for the financial year and for the two months after the year end
6. Investment advices, when monies are invested at anytime during the year – e.g. Forsyth Barr Report Copy
7. A workpaper supporting each item in the Balance Sheet.
8. A copy of the fixed asset register if it has not been included in the financial statements and copies of the invoices for any fixed asset additions during the year. If there has been sales of assets then copies of supporting documentation.
9. A listing of the accounts receivable at year end (please identify any amounts which are doubtful of collection)
10. A GST Reconciliation and copies of the GST returns for the year (if GST registered).
11. A Wage Reconciliation with supporting information from both the IRD and the Payroll system. This should include reports verifying Wage and Holiday pay accruals where applicable.

12. If there are prepayments at year end then the supporting documents for them (eg: a copy of the insurance premium invoice is required)
13. For stock on hand, a listing of the stock at year end
14. A listing of accounts payable at year end
15. A copy of any lease agreements
16. A copy of current contracts entered into. This includes Govt Contracts for the year under review.
17. Receipt book, where used
18. Sales invoice copies where bills are sent to customers
19. Payroll record, where staff are employed
20. Suppliers' invoices to support payments made.

Seek assistance if you are unable to provide the information or unsure how to obtain the information required.

Looking for assistance?

Dunedin Community Accounting helps small non-profits with book-keeping and accounting queries.

Free one to one sessions and workshops.

 dca.org.nz

 kiaora@dca.org.nz

 **0800 113 160**