

## ATCANZ Discussion Document

Consideration of changes to the ATCANZ Constitution needed to ensure the organisation is able to comply with the new Charities reporting requirements.

In late 2013 the Government made changes to Charities related legislation that will most likely have a profound effect on the way ATCANZ manages and reports on its financial activities. These changes are set out in the Financial Reporting Act 2013, the Financial Reporting (Amendment to Other Enactments) Act 2013 and in amendments to Charities Act 2005.

The changes:

- Require charities to follow External Reporting Board (XRB) Standards,
- Require financial statements to be filed with Charities Services, and
- Allow small charities to use cash accounting (in this context ATCANZ is not a small Charity)

In summary:

- The law determines WHO must report,
- The WHO = registered charities,
- The XRB determines WHAT to report,
- The WHAT = XRB Standards, and
- Charities Services monitor and enforce the WHO doing the WHAT

In these new reporting standards there are four levels. The reporting level that applies is determined by the total annual expenditure of the entity. In 2013 ATCANZ total expenditure (Management Committee and Branches combined) was in excess of \$740,000 which means that **ATCANZ (Management Committee and Branches combined) must report as a Level 3 entity, adopt an accrual accounting methodology and have an annual Audit or Review.**

The following numbered paragraphs from the ATCANZ Constitution relate to this activity. Some minor changes may be required to ensure adequate controls and guidance are in place to ensure we meet our obligations under this new legislation. The sentences in italics are informative and do not form part of the current Constitution. The numbers are the actual numbers from the Constitution.

9.6 District Councils and Branches shall cause to have maintained minutes and records of meetings, shall annually notify the Management Committee the names and addresses office bearers and of any changes as they occur, shall provide annually a Statement of Financial Affairs in such form as may be determined by the Management Committee, and shall carry out such other administrative procedures deemed to be appropriate.

*This appears to be adequate if relied on and complied with. Note that with the exception of the brief details provided for Charities reporting very few financial accounts have been received by the Management Committee.*

10.2 The Management Committee shall prepare budgets as appropriate and determine any levies necessary to maintain the funding of the Association. Such levies shall be notified to Districts and Branches at the end of each calendar year so that Districts and Branches can arrange their finances accordingly.

*Management Committee have overlooked this notification for the past two years. Note that Charities requirements are that budgets, outputs and outcomes are required for the whole organisation.*

- 10.3 The National Council, through the Management Committee, may raise funds, borrow money and invest, lend or otherwise dispose of such funds to the best advantage of the Association. Such funds may not be returned to members.
- 10.4 District Councils and Branches shall be responsible for their own financial management and may raise and administer funds by whatever means considered to be appropriate, subject where necessary to matters of policy decided by the Association. Such funds may not be returned to members.

*Subject where necessary to matters of policy decided by the Association appears to be adequate to cover the Charities issue so long as Policy is agreed by the Association, presumably at National Council level. This will be discussed, with a view to adopting a workable policy at the AGM in May 2015.*

- 10.5 The financial year of the Association and its constituent District Councils and Branches shall be determined by National Council. For the time being the financial year shall commence on the first day of January and conclude on the thirty first day of December each year.
- 10.6 The National Council shall appoint annually an Auditor who shall be a Chartered Accountant in public practice. The remuneration of the Auditor shall be determined by the Management Committee.

*This paragraph is deficient as it does not require an audit or review but simply the existence of a person able to carry out this task. The Management Committee recommend that it be reworded to cover the appointment and to set out what is to be done. The “what” that needs to be done must be at least a review of the financial statements of the entire organisation such that satisfies the Charities legal reporting requirements.*

At its April 2015 meeting the Management Committee agreed that the amendment below should be recommended to the National Council at its meeting on the 23<sup>rd</sup> of May 2015.

The Management Committee recommends that Clause 10.6 of the Constitution of the Air Training Corps Association of New Zealand Incorporated be amended as follows.

Delete the existing Clause 10.6 and replace it with the following:

“10.6 The accounts of the organisation shall be maintained in a manner that enables annual reports to be prepared to the standards specified by the External Reporting Board. The accounts shall be reviewed before the first day of May each year, by a Chartered Accountant in public practice, who shall be appointed each year by the National Council. The remuneration for this review shall be determined by the Management Committee.”

What is the difference between an audit and a review?

An audit must be done according to the International Audit Standards of NZT issued by the NZ Institute of Chartered Accountants (NZICA). The NZICA has also issued standards for reviews in their RS-1 document.

The main differences are that an audit gains a better level of assurance that the financial reporting is materially correct, through externally confirming balance sheet figures, and testing the accounting systems used to compile the income & expenses transactions, in the profit and loss report.

The lower level of assurance in a review, is because the balance sheet is internally verified to the organisations own supporting schedules, and the profit and loss is only examined on an analytic basis, by comparing the current year to a previous year.

In some circumstances there is a lower cost to a review than applies to an audit.

To enable the reporting to be completed in a timely manner, and to the required standard, it is likely that a common accounting methodology will need to be adopted and it is probable that the online accounting system "Zero" will be suitable for this purpose. The cost for this service is likely to be in the order of \$600 per year for the entire organisation. If adopted Branches and Districts will continue control their own funds and use their existing bank accounts. The same will apply to the Management Committee. However, information from the accounting transactions will be readily available to enable the preparation of reports for the entire organisation.

This discussion document has been provided in an effort to ensure delegates to the ATCANZ AGM are fully informed in advance of the meeting about the 2013 legislative changes and the current reporting requirements for Charities. If you have any questions or suggestions for dealing with this subject matter please feel free to contact me by email at [atcanzgensec@gmail.com](mailto:atcanzgensec@gmail.com).

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19/4/2015