

# Independent Assurance Policy

## **General Objectives**

To establish guidelines and standards for the independent assurance (commonly known as an audit or review) of annual financial statements in accordance with the Laws and Regulations of the Methodist Church of New Zealand Te Haahi Weterianna O Aotearoa (10:1.3.1).

## **Legal Requirements**

A number of Methodist entities are incorporated under the Charitable Trusts Act, the Incorporated Societies Act or the Companies Act. Other than the Companies Act, neither of the other two Acts currently have any legal requirement for independent assurance of their financial statements. The Trustee Act contains a provision for the Court to order an audit of a Trust (sec 83(b)).

The Charities Act 2005 has been amended to provide that all large or medium sized registered charities are to be either audited or reviewed (sec 42C and 42D). Large charities, for the purpose of establishing whether independent assurance is required, are those charities where the total annual operating expenditure of the entity is \$1 million or more (sec 42D (1) (a)) and a medium sized registered charity is one that is not large and the total annual operating expenditure of the entity is \$500,000 or more (sec 42D1(b)).

The Financial Reporting Act 2013 sets out the responsibilities of the External Reporting Board (XRB) to issue accounting standards that are approved as generally accepted accounting practice and to regulate auditors and their qualification.

Each incorporated entity has a constitution or set of rules on which the incorporation of that entity was based. These have full legal status and the provisions must be observed. Changes to these constitutions or rules do not normally take effect unless and until the changes are formally effected with the Registrar of Incorporated Societies or other official body. In most cases changes to the constitution or rules will require the prior approval of the Conference of the Methodist Church of New Zealand Te Haahi Weterianna O Aotearoa. They must also be lodged with Charities Services and the Registrar of Incorporated Societies.

Where the constitution or rules of an entity include a clause requiring either audit or review assurance engagements to be conducted on the financial statements, this must be done no matter what the Law (whether secular or Church law) provides. If the Law provides a higher standard, then that provision will overwrite the provisions in the entity's constitution.

Some government and non-government agencies with whom Methodist entities contract or from whom they seek funding, may have a prerequisite for audited financial statements. In those cases, their requirements should be met, or alternatives negotiated. This is a contractual requirement between the parties to the contract. These agreements must be read and complied with and may be additional to what the Law or this Policy provides for.

It is generally assumed that an audit must be carried out by a member of the New Zealand Institute of Chartered Accountants. The Financial Reporting Act 2013 provides for who is able to conduct audits and regulates the qualifications of auditors for audits required under Statute. The former practice of anyone can undertake an audit or review is no longer acceptable and may mean a breach of the Financial Reporting Act or the Charities Act which will place the Officers of that entity at risk of prosecution. If in doubt, ask the auditor to prove evidence that they are licenced by statute to undertake an independent assurance of the financial statements.

### **Independent Assurance Policy**

It is the policy of the Methodist Church of New Zealand Te Haahi Weterianna O Aotearoa that legal and constitutional requirements for the production of independently assured financial statements will be met in full and that the audit or review will be undertaken by a person or an accredited body who is legally able to undertake such an audit or review.

### **Law Book Requirements**

The Laws and Regulations relating to the auditing of financial accounts within The Methodist Church of New Zealand Te Haahi Weteriana O Aotearoa were amended at Conference 2006. Prior to the decision at Conference 2006 the Laws and Regulations provided:

- “10:1.3.1 The financial statements of all Connexional Funds shall be duly audited and shall be presented annually to the Conference.*
- 10:1.3.2 All other Boards, Trusts, Parishes, Committees and Courts of the Church shall annually submit duly audited accounts, and these accounts shall be placed in the Conference Journal”*

Conference 2006 decided to combine these two clauses to read:

- “10:1.3.1 All Connexional Funds, Boards, Trusts, Parishes, Committees and Courts of the Church shall annually prepare and submit accounts which are to be audited or reviewed in a manner and to a standard published in the Treasurer’s Handbook.*
- 10.3.2 These accounts shall be placed in the Conference Journal.*
- 10.3.3 Authority to determine and publish the standards shall be the responsibility of the Board of Administration.”*

This provides the minimum requirements of the Church in relation to the preparation and submission of financial statements that need to be independently assured. Boards and Committees may choose to work to a higher standard if they so choose. This change does not automatically alter any statutory requirements, or of individual constitutions or rules of the entity or any specific requirements of the Law Book. It does set a general requirement for those bodies that do not have specific requirements and it clears the way for bodies that

have existing constitutional requirements to work to change the audit requirements where that is appropriate.

In applying this policy and determining the need for an independent assurance engagement, the following matters will need to be taken into account by the Officers or Governing body of that entity (not necessarily in this priority):

- Whether there is a legal requirement for the entity to produce and/or file audited or reviewed accounts under legislation within New Zealand (**all** registered charities whose operating expenditure is over \$500,000 will have a legal requirement to have their accounts either reviewed or audited in accordance with the Charities Act)
- Whether the constitution or rules require an audit or review to be completed
- Whether any funder of the entity requires audited or reviewed accounts to be produced
- Whether a limited review will meet the needs of the users of the financial statements
- Whether the asset base of the entity mandates a higher expectation that an audit or review engagement would be conducted
- Whether the total revenue of the entity raises an expectation that that an audit or review engagement would be conducted
- The total operating expenditure of the entity
- The audience the entity is reporting to and the requirements of that user group
- Whether the target audience is internal to or external to the Church
- The costs/benefit of a full audit to the entity or wider Church
- The wishes of the Board responsible for the accounts.

**The general policy for the independent assurance engagement of annual accounts for ALL entities that report to the Conference of the Methodist Church of New Zealand Te Haahi Weteriana o Aotearoa is:**

- (a) “Small Entities” with less than \$500,000 of **total operating expenditure** shall not be subject to any independent assurance engagement unless determined otherwise by the Board of Administration;
- (b) A “Medium” sized Entity is one which is NOT large in each of the 2 preceding accounting periods of the Entity and the **total operating expenditure** is more than \$500,000 but less than \$999,999 and **MAY** have its annual accounts audited **BUT** must have their annual accounts reviewed by a qualified auditor;
- (c) A “Large” Entity with **total operating expenditure** greater than \$1,000,000 in each of the 2 preceding accounting periods **shall** be required to have their annual accounts subject to audit by a qualified auditor.

The Board of Administration will advise entities reporting to it or to Conference of the changes to these requirements from time to time. The general policy, as outlined above is superseded by any specific policy direction provided to an entity that may outside for a higher level of assurance.

## **Parishes**

These are defined in section 3:1.1 of the Laws and Regulations:

*“A Parish comprises one or more congregations situated in an area and in relationship with each other as from time determined by the Conference.”*

Lists of Parishes that have been determined by Conference are listed in the Conference Minutes under question 24 on an annual basis.

The general policy on audit or review provided above shall be used by all Parishes.

## **Synods**

Synods are subject to the general policy.

## **Other Entities reporting to Conference**

All other entities that have a reporting requirement or accountability to Conference that are not Parishes or Synods have, as a minimum, the same assurance requirements as Parishes and Synods and must comply with the general policy unless there are specific constitutional or contractual requirements.

**The need for audit/review will be made on an annual basis and may change from year to year as is required and as circumstances change by the Laws and Regulations adopted and amended from time to time by Conference.**

Revision 0 – As approved by BOA on 10 May 2007

Revision 1 – As approved by BOA on 9 May 2013

Revision 2 - As approved by BOA on 11 December 2014

### **Revision 1**

On 9 May 2013, the Board of Administration changed the annual income from \$100,000 to \$125,000 for Parishes and synods in clauses (a) and (b) under “Parishes”. No other changes were made.

### **Revision 2**

Major changes to bring the policy into line with intended changes to assurance requirements under the Financial Reporting Act 2013, changes to wording, removing the lists of entities from the body of the policy to an appendix and updating of language.

## **APPENDIX ONE**

### **List of Entities within the Methodist Church of New Zealand Te Haahi Weterianna O Aotearoa**

The list of entities listed below may not be a full and exclusive list. If an entities name does not appear on the list and you believe it should be, then please contact the Connexional Office to discuss.

- Airedale Property Trust
- Auckland Church Office Building Partnership (established under section 10:2 of the Laws and Regulations and incorporated under the provisions of the Charitable Trusts Act 1957)
- Board of Administration (established under section 10:3 of the Laws and Regulations and incorporated under the provisions of the Charitable Trusts Act 1957)
- Board of Administration Insurance Account (established under section 10:4 of the Laws and Regulations)
- Board of Administration – Special Account (established under section 10:5 of the Laws and Regulations)
- Camp Morley Property and Christian Development Committee
- Christchurch Methodist Mission (established under section 3.14 of the Laws and Regulations and incorporated under the provisions of the Charitable Trusts Act)
- Connexional Budget Account (established under section 10:9 of the Laws and Regulations)
- Connexional Expenses Fund and those Committees that report to the Connexional Expenses Fund (established under section 10:10 of the Laws and Regulations)
- Connexional Fire Insurance Fund (established under section 10:11 of the Laws and Regulations)
- Church Building and Loan Fund (established under section 10:8 of the Laws and Regulations)
- Dunedin Methodist Mission, established by Conference 1890 and incorporated under the Charitable Trusts Act, 1957 on 26 November 1976 (Section 11(B) 2.29(d))
- General Purposes Trust Board (Inc.) (established under section 10:13 of the Laws and Regulations and incorporated under the provisions of the Charitable Trusts Act)
- Grafton Downs Limited
- Hamilton Methodist Social Services
- Investment Advisory Board (established under section 5:5 of the Laws and Regulations)
- Methodist Charitable Care Facilities Trust
- Methodist Employment Generation Fund (Northern) Trust
- Mission and Ecumenical Committee (established under section 5:4 of the Laws and Regulations)
- Methodist Mission Aotearoa (established under section 5:7.12 of the Laws and Regulations)
- Methodist Mission Northern (established under section 3.14 of the Laws and Regulations and incorporated under the provisions of the charitable Trusts Act)
- Methodist Trust Association (established under section 5.6.1.1 and incorporated under the provisions of the Charitable Trusts Act)

- Mission Resourcing Board - Mission Resourcing Fund (established under section 10:7 of the Laws and Regulations and incorporated as under the provisions of the Charitable Trusts Act 1957)
- P.A.C. Distribution Group (established under section 5:7.11 of the Laws and Regulations)
- PACT 2086 Trust (incorporated under the provisions of the Charitable Trusts Act)
- Palmerston North Methodist Goodwill Limited
- Palmerston North Methodist Social Services Trust
- Presbyters Loan Fund
- Rangiatea Maori College Trust Board (established under the provisions of section 11(B) 2.1 of the Laws and Regulations)
- Robert Gibson Methodist Trust Board
- Removal Expenses Fund
- Samoa Moni I Lana Gagana Aoga Amata Trust
- Supernumerary Fund of the Methodist Church of New Zealand (established under section 10.24 of the Laws and Regulations and registered under the provisions of the Superannuation Schemes Act 1989)
- Tamahere Eventide Home Trust (incorporated under the provisions of the Charitable Trusts Act) including
  - Te Taha Maori (established under section 6:3 of the Laws and Regulations)
  - Te Taha Maori Property Trust
  - The Lifewise Trust
  - The Mustard Seed Trust
- Touchstone, which reports to the Methodist Publishing Board (established under section 5:7.13 of the Laws and Regulations).
- Trinity College Council - Ministry Education Fund (established under section 10:6 of the Laws and Regulations and incorporated as the Methodist Theological College Council under the provisions of the Charitable Trusts Act 1957-211892).
- Vahefonua Tonga Methodist Mission Charitable Trust
- Wanganui Trinity Trust
- Wellington Methodist Charitable and Educational Endowments Trust (established under the provisions of the Wellington Methodist Charitable and Educational Trusts Act 1916)
- Wesley College Trust Board (established under the provisions of the Methodist Charitable and Educational Trusts Act 1911)
- Wesley Community Action (established under the provisions of section 3.14 of the Laws and Regulations and incorporated under the provisions of the Charitable Trusts Act)
- Wesley Historical Society (established by resolution of 1930 Conference and incorporated under the provisions of the Charitable Trusts Act)