



Birds New Zealand

Recommendations for four amendments to the Constitution of The Ornithological Society of New Zealand Inc.

9 October 2017

This document sets out **recommendations** for four amendments to the Constitution of The Ornithological Society of New Zealand Inc (OSNZ). These proposals were considered by Council when it met in Wellington on 7 October.

Council resolved to support these recommendations, in principle, and now invites comments and endorsement from Regional Representatives (RR). If these recommendations enjoy the support of RRs it is proposed that they be presented to members present and be voted on at the Annual General Meeting to be held in the Bay of Islands in 2018.

1. Rule 16.1.1 – Annual Review of Accounts

An Independent Assurance Practitioners Review of the 2015 accounts submitted to Council in September 2017 drew attention to an inconsistency between one aspect of accountancy practice and one rule in the society's Constitution. The reviewer (NMA Nelson Marlborough Audit Ltd) noted that Rule 16.1.1 requires that annual audited accounts need to be submitted.

The reviewer explained following a review of the financial accounts for 2015 that the society is in breach of its own Constitution in requesting a review rather than an audit. The reviewer has recommended that audit rather than a review is performed each year, or that that society amend its constitution to allow a review or an audit to be performed at the discretion of its members.

Being a Registered Charity the OSNZ is bound by the provisions of the Charities Act and of other legislation that might affect the operation of the society. Changes to the Charities Act 2005 created statutory audit and review requirements for medium and large charities from 1 April 2015.

Rule 16.1.1 of the Constitution was approved at an AGM many years ago, long before the option of seeking a review of accounts was available rather than an audit. There appears to be no legal requirement for an audit of accounts for a society of our size.

A summary of relevant changes to the rules concerning financial reporting requirements that are set out on the Charities Services website are **annexed** to this document; these provide helpful background and context on this topic. Refer to <https://charities.govt.nz/> for further details on these matters.

The OSNZ is not a 'medium or large' charity. It appears that we are a "Tier 4" charity and as such it is not a legal requirement for its annual accounts to be audited. The society's total annual operating expenditure – a key feature of the definition of tiers – for the years 2010 through to 2016, has always been less than \$500,000 consequently OSNZ is not required by law to have an audit or a review. It may however elect to do so if it so wishes.

Council is mindful that the society may be required as a condition of receiving grants from donors to have its financial statements audited, or reviewed. It would seem to be both prudent

and sensible to require our accounts be reviewed regularly to provide comfort to the membership and to donors, or to potential donors of funds.

Against the foregoing background it is **recommended** that Rule 16.1.1 be amended as follows:

At every Annual General Meeting the Council shall submit an annual report and a statement of accounts of the Society for the previous year. The Council may elect to have the statement of annual accounts audited, or reviewed by an independent reviewer in accordance with the requirements of relevant legislation.

2. Rule 14.16 – Annual Accounts of the Regions

Rule 14.16 sets out a procedure for the management and audit of the annual financial accounts of the regions. It presently reads as follows:

14.16 All monies or other property held by the regions are to be held on behalf of the Society according to such conditions and procedures as the Council shall determine and the annual financial accounts for a region are to be audited by the Treasurer of the Society.

As a consequence of the proposed amendment to Rule 16.1.1 it is not logical to require that regional accounts be subject to an audit, and in any case an audit is not conducted by the Treasurer.

It is **recommended** that Rule 14.16 be amended to read as follows:

All monies or other property held by the regions are to be held on behalf of the Society according to such conditions and procedures as the Council shall determine. The annual financial accounts for a region shall be incorporated within the annual accounts of the Society as a whole and may be reviewed by an independent reviewer in accordance with the provisions of Rule 16.1.1.

3. New Rule 14.17 – Management of Regional Accounts in the absence of a Regional Treasurer

Rule 14.15 authorises the appointment (by election) of a regional Treasurer in each region. The regional Treasurer is one of two elected positions in each region, the other being the RR. For many years this arrangement has worked well, and it continues to work well, and has enabled regions to enjoy a high degree of autonomy in the management of regional funds, however moneys are granted, earned and expended.

The OSNZ Constitution does not specifically set out a procedure for the management of regional accounts in the absence of a regional Treasurer. The closest requirement is in Rule 14.16, namely, “All monies or other property held by the regions are to be held on behalf of the Society according to such conditions and procedures as the Council shall determine ...”

A need for a specific rule for the management of regional funds where a regional Treasurer cannot be appointed is raised at this juncture because of a difficulty being experienced in Wellington Region, but it may also apply elsewhere. The regional Treasurer has held this

position in the Wellington Region for about 15 years and has made it known to the RR that he wishes to retire from the role. Notwithstanding numerous enquiries it does not appear that any Wellington members are prepared to tackle this position. Since Council has ultimate responsibility for the management of all Society accounts, including in the regions, it is important that Council and the regions come to an agreement on how the regional accounts will be managed in the event that a regional Treasurer cannot be elected. The matter cannot be left “in limbo”!

The following procedure is **recommended** which could be adopted as a new Rule 14.17:

Where a position of regional Treasurer for any specific region cannot be appointed Council may appoint a Treasurer from another region as Acting Treasurer in the region not having an appointed Treasurer for a period not exceeding one year. If a regional Treasurer position continues to remain vacant for more than one year Council shall assume all financial responsibilities for that region, including the keeping of accounts, the management of bank accounts and the control of cheque books. Regional management of accounts may be delegated by Council to the region once a new regional Treasurer is appointed.

4. Rule 3 – Objects of the Society, and specifically Rule 3.7 – Library Matters

The acceptance of a 10-year **Strategy** for the Society at the Blenheim AGM on 30 May 2015 included several helpful amendments made by members. One small amendment to the Strategy concerning library matters that was adopted at the AGM is inconsistent with Rule 3.7 of the Constitution.

The Objective 7 of the Strategy concerning library matters was amended at the 2015 AGM to read,

Maintain a library of ornithological literature **and other media** for the use of members and to promote a wider knowledge of birds. The words “and other media” were added.

For reference see the Strategy on the society’s website,

[https://www.osnz.org.nz/sites/osnz.org.nz/files/2015 Birds New Zealand Strategy 4.pdf](https://www.osnz.org.nz/sites/osnz.org.nz/files/2015%20Birds%20New%20Zealand%20Strategy%204.pdf)

The addition of the words **and other media** is not consistent with Object (Rule) 3.7 of the Constitution as it is written presently, namely, “3.7 To maintain a library of ornithological literature for the use of Members and to promote a wider knowledge of birds”. Although this is a small technical amendment it should nevertheless be made to ensure consistency between the Strategy and the Constitution.

It is **recommended** that Rule 3.7 be amended as follows:

To maintain a library of ornithological literature and other media for the use of Members and to promote a wider knowledge of birds.

Annex:



Birds New Zealand

Statutory Audit and Review Requirements - extracts from the Charities website concerning New Statutory Audit and Review Requirements for all New Zealand charitable societies

Changes to the Charities Act 2005 created statutory audit and review requirements for Registered Charities from 1 April 2015.

References:

<https://charities.govt.nz/im-a-registered-charity/annual-returns/new-statutory-audit-and-review-requirements/>

<https://www.charities.govt.nz/new-reporting-standards/financial-reporting-and-control-relationships/>

Are you affected?

If your **total operating expenditure** for each of the previous two accounting periods was:

- **over \$500,000 (medium)** – your financial statements must be either **audited or reviewed** by a qualified auditor; or
- **over \$1 million (large)** – your financial statements must be **audited** by a qualified auditor.

Tier 3 charities that are required by statute to have an audit or review will also have their non-financial information audited or reviewed.

It appears that OSNZ is a Tier 4 charity (see page 5 for definition of tiers), meaning that it does not require its annual accounts to be audited. The society's total operating expenditure for each of the years between 2010 and 2016 was (much) less than \$500,000 and consequently the society is not required by law to have an audit or a review.

What is the difference between audit and review?

	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. "The financial statements are free from material misstatement".	Independent Review Report Conclusion is expressed in a negative form, e.g. "Nothing has come to our attention that causes us to believe that the financial statements are not free from material misstatement".
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.
Assurance standards	Auditing Standards – All 36 ISAs (NZ)	Review Standards - ISRE (NZ) 2400: Review of Historical Financial Statements Performed by an Assurance Practitioner

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.

If a registered charity that does not have a statutory requirement to have an audit or review of its performance report elects to have an audit or review, the charity can decide whether it wants the Entity Information and Statement of Service Performance included in the assurance engagement. In these circumstances:

- The engagement letter from the auditor needs to set out the scope of the engagement and reporting, and
- The audit or review report needs to be clear about what information in the Performance Report the conclusion covers.

When deciding whether to have the non-financial information in the Performance Report audited or reviewed, the Charity should carefully consider the following:

- What are the rules of the Charity? Does the Constitution or Trust Deed specify what is to be audited or reviewed?
- Will any other users of the Performance Report (e.g. funders or a bank) require the non-financial information to be audited or reviewed?
- The scope of the assurance engagement should be thoroughly discussed with the auditor prior to them commencing their work so that there are no surprises for either party at the conclusion of the audit or review.

Neither an audit nor a review will guarantee complete accuracy of financial statements, or detect fraud.

Who are qualified auditors?

Statutory audits and reviews must be done by a qualified auditor. Qualified auditors are defined under sections [35](#) and [36](#) of the [Financial Reporting Act 2013](#).

Chartered Accountants Australia New Zealand offers qualified auditor recognition through the New Zealand Institute of Chartered Accountants (NZICA) which is their New Zealand regulatory body. You can find the NZICA Register of Qualified Auditors on the [Chartered Accountants Australia New Zealand website](#) .

CPA Australia is another professional accounting body which also provides recognition. You can find out more about CPA Australia's [qualified auditor recognition on their website](#) .

Further background is available on this Charities website <https://www.charities.govt.nz/new-reporting-standards/financial-reporting-and-control-relationships/> as follows:

Financial reporting and control relationships

Financial reporting needs to tell a story about what you do, the resources used in doing it, and how well positioned you are to continue doing it. To tell this story, you may need to consider whether you have control relationships with other organisations. If you have control relationships, this could affect the story that needs to be told, and the reporting tier that your charity is eligible to use.

Some charities set up separate organisations to carry out their different activities. For example, a charity might establish a separate trust to manage its properties and investments, or establish an incorporated society to run a second-hand shop that provides income for the charity. In these situations, the charity is likely to have a **control relationship** with the trust or incorporated society – if so, the charity will need to include information about them in its reports.

How can this affect the reporting tier?

If a Tier 1, Tier 2 or Tier 3 registered charity has control relationships with other organisations, these organisations are considered part of the charity's **reporting entity**. See Page 5 for a definition of reporting tiers.

Charities in this situation will need to include information about these organisations in their performance reports by providing **consolidated financial statements** and submitting these consolidated financial statements to Charities Services together with their annual returns.

In such cases, the combined expenditure of the charity and the organisation/s they have a control relationship with, could mean that the charity is required to report in a higher tier. The combined expenditure does not include transactions between the organisations within the reporting entity.

For example, a charity's annual expenses are \$1.5 million (thereby qualifying for Tier 3), the annual expenses of a separate organisation they control are \$1 million, and they calculate the expense transactions between the two organisations were \$300,000. The combined expenditure would be \$2.2 million and the charity would be required to report in Tier 2.

Tier 4 registered charities do not need to prepare consolidated financial statements and control relationships will not affect their reporting tier. However, as part of the requirements of the Tier 4 Standard, a Tier 4 charity would need to describe its structure in the performance report, including the nature of any control relationships it has. A Tier 4 registered charity can choose to report using the Tier 3 Standard and prepare consolidated financial statements if they wish.

What are consolidated financial statements?

Consolidated financial statements present information about a charity and the organisations it controls as one single entity (i.e. the reporting entity). The charity combines its assets, liabilities, equity, income, expenses and cash flows with those of any organisations it controls. Where charities also provide non-financial service performance information (such as purpose, outcomes and outputs) this information is also combined in the consolidated statements.

What is control?

Control for financial reporting purposes is the **power** to govern the financial and operating policies of another organisation in order to **benefit** from its activities. There must generally be both power AND benefit for a control relationship to exist. The benefits can be both financial and non-financial in nature.

Some indicators of power and benefit are outlined in the table below.

Indicators of power	Indicators of benefit
<p>The charity has the ability to:</p> <ul style="list-style-type: none"> • veto, overrule or modify decisions of the organisation's governing group • appoint or remove members from the organisation's governing group • set or modify policy about how revenue is raised or how money is spent by the organisation, or • close or wind up the organisation. 	<p>The charity benefits by:</p> <ul style="list-style-type: none"> • receiving all or a portion of the organisation's profits/surplus, or even being responsible for the organisation's losses (negative benefit), or • the organisation provides goods or services which contribute to the charity's objectives.

Which tier will I use?

This information helps you decide which reporting tier to use and explains some important accounting terms.

The new reporting standards are part of a tiered system. All charities default into Tier 1, but may choose to report in another tier if they meet certain criteria.

The criteria for each tier are shown below. The tier that a charity reports under is determined by the annual expenses or operating payments of its previous two financial years. Look at your last two annual financial statements for this information.



Please note that the expense thresholds must be viewed in the context of the previous two financial periods. For example, if you had annual operating expenses of less than \$125,000 in the financial years ended 31 March 2014 and 31 March 2015 you would be entitled to use tier 4 regardless of whether your annual operating expenses for the year ended 31 March 2016 were above or below \$125,000. If, on the other hand you had annual operating expenses greater than \$125,000 for the years ended 31 March 2014 and 31 March 2015, but in the year ended 31 March 2016 you had annual operating expenses of less than \$125,000, you would be required to use the tier 3 standard because the threshold applies to the previous two periods, not the current period. The reason for this is to take into account any one-off fluctuations in expenditure that might otherwise require a charity to report under a higher tier.

Charities with annual expenses over \$30 million, or with public accountability (see below), must report using Tier 1 standards. All other charities may choose to use a lower tier if they meet the criteria.

If you meet the criteria of two different tiers, refer to the information about 'Moving between tiers.'