michael prasad group
specialising in business development

Who needs to get audited?

Some enterprises are required by law to have an audit of their financial statements. Others may be requested to supply audited financial statements by a lender, donor, or other third party. Many organisations choose voluntarily to enjoy the benefits of an audit by writing them into their constitutional documents.

What is an audit?

An audit is essentially concerned with ensuring the reliability of financial statements. By law, an auditor must report on whether an entity's accounts are true and fair, and whether they comply with generally accepted accounting practices and the requirements of any specific legislation applicable to the entity, eg the Companies Act 1993.

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in financial statements. It also includes assessing:

- The significant estimates and judgements made in the preparation of financial statements; and
- Whether the accounting policies applied are appropriate in all the circumstances, and are consistently applied and adequately disclosed.

Benefits of an audit

An independent assessment of an entity's financial statements can provide credibility to the financial statements and give greater certainty that the entity's reports accurately reflect the position of that entity.

Audits of financial statements, therefore, arguably bring considerable benefits in terms of:

- The accountability and oversight of management of an entity; and
- Transparency for external parties seeking to rely on the financial statements.

However, there are also costs associated with the audit process and these benefits must be weighed against these costs, particularly in respect of smaller entities.

Entities that may be required to be audited

Issuers

Under the Financial Reporting Act 1993 ('FRA'), the financial statements of every reporting entity that is an 'issuer' must be audited.

Issuers are defined as including:

- Every person (including overseas entities and registered banks) who has allotted securities in accordance with the Securities Act 1978 through an offer made in a registered prospectus or investment statement, or by virtue of an exemption granted by the Securities Commission;
- Managers of unit trusts; and
- Persons listed on the New Zealand Stock Exchange.

However, the FRA deems the following persons are not issuers:

- The Crown;
- Local authorities;
- The Reserve Bank; and
- Companies that have allotted securities but have less than 25 shareholders.

Foreign companies

These are companies that:

- Are overseas companies;
- Are subsidiaries of overseas companies;
- Have 25% or more of their votes controlled by overseas companies or subsidiaries thereof; or
- Have 25% or more of their votes controlled by a person who is not ordinarily resident in New Zealand.

Foreign companies must appoint an auditor and have their financial statements audited.

Public sector entities

The Public Audit Act 2001 ('PAA') and various other pieces of legislation require the audit of public entities.

Public entities are defined in section 5 PAA and include (among others):

- The Crown;
- Airport companies;
- Community trusts;
- Crown entities;
- Local authorities;
- Maori Trust Boards;
- State-owned enterprises;
- Schools; and
- Government departments.

Other entities

Certain other types of entity also have specific requirements to be audited, such as:

- Banks; and
- Registered superannuation schemes.

Entities that may not be required to be audited

Charitable bodies etc

Many charitable bodies, trusts and incorporated societies do not need to have their financial statements audited by law, but nevertheless elect to be audited so that they present a more professional image when presenting funding applications as well as to reassure members that their financial affairs are in order.

Exempt companies

Exempt companies and reporting entities that are not 'issuers' need not have their financial statements audited.

Exempt companies are companies, other than overseas companies and issuers that:

- Have assets less than $450,000;
- Have turnover of less than $1,000,000;
- Are not, and do not have, subsidiaries; and
- Do not have more than 25 shareholders.

This means that for many family-owned businesses an audit is not a requirement.

Finally

- Talk to us for further advice on whether your organisation is required to be audited and about the benefits and costs associated with auditing your financial statements.
- An audit may be a valuable tool to your organisation, even if not technically required by law.

See Us First

- Before making any financial decisions.
- To assist you in meeting the necessary legal or financial requirements.
- If you consider that any of the issues contained in this fact sheet may affect you.

Disclaimer

Important: This is not advice. Clients should not act solely on the basis of the material contained in this fact sheet Items herein are general comments only and do not constitute or convey advice per se. Changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of the areas. We believe the contents to be true and accurate as at the date of writing but can give no assurances or warranty regarding the accuracy, currency or applicability of any of the contents. This fact sheet is made available to our clients as a helpful guide for their private information. Therefore it should be regarded as confidential and should not be made available to any person without our prior approval.