

Financial Reporting for Landcare Groups

Audit versus review – which is needed?

WHY ARE AUDITS REQUIRED?

An audit or review provides an independent assessment by an independent external auditor that the financial records of your Landcare group are 100% correct and are a true and fair reflection of the financial transactions.

It is a reliable source of financial information on which to assess the organisation and its performance. Many Landcare organisations have an annual audit undertaken by an accountant.

AUDITS STRENGTHEN CREDIBILITY

Audits and reviews enhance the credibility of the information contained within the financial statements, so that stakeholders such as funders, members, communities and committee members can make assessments and decisions with confidence.

WHAT DO AUDITORS DO?

The audit or review of financial statements is a systematic process designed to identify errors in the financial statements.

FINANCIAL REVIEW VS AUDIT— WHAT IS THE DIFFERENCE?

Committees can elect to have their annual financial statements **audited** or **reviewed** by an accountant. An audit tends to be a more time-consuming process, which usually incurs a higher fee.

It is important to understand the distinction between the two options. To understand the difference, it is helpful to understand the term 'assurance'.

Assurance is a statement intended to give confidence that users can place in a given subject matter or information.

For example, an auditor's report is a document that increases the confidence that users can place in a company's financial statements.

An audit and a review provide different levels of assurance. The following diagram illustrates different levels of assurance provided by both an audit and a review:



Source: CPA Australia

THE AUDIT PROCESS

An audit is a detailed process that provides a high level of assurance to the users of financial reports. An audit provides a high level of credibility to financial reports and ensures financial statements are in accordance with Australian Accounting Standards.

This may be very useful for Landcare organisations seeking funding, sponsors and project partners, or to attract office bearers to the organisation.

An auditor is required to conduct audit procedures in accordance with the

auditing standards, in order to detect anomalies and errors and carry out specific procedures to reduce fraud risk.

THE REVIEW PROCESS

A review, in contrast to an audit, provides limited assurance that the financial statements are 100% correct. It involves making enquiries, primarily of persons responsible for financial and accounting matters, and analysing and reviewing procedures.

The objective of a review is to provide a conclusion to the users of the financial statements as to whether they present a true and fair view, and are in accordance with accounting standards.

AUDIT EXEMPTIONS IN QLD

In QLD, not all incorporated associations are required to have an annual audit of their financial statements.

In QLD, the *Associations Incorporation Act 1981* divides associations into three tiers for reporting and audit purposes.

Larger, or Level 1 associations, whose gross receipts exceed \$100,000 or current assets exceed \$100,000 are required, and Level 2 associations (\$20,000-\$100,000) must submit audited financial statements each year to their members at the Annual General Meeting.

Smaller, or Level 3 associations must ensure that the president or treasurer verify the financial statements to the Annual General Meeting.

All incorporated associations must submit an annual return to QLD Office of Fair Trading online, or on a form, within one month of the AGM.

AN AUDIT IS NOT ABSOLUTE ASSURANCE

While an audit provides a high level of assurance, it is not absolute assurance (a certification that the financial statements are completely correct).

According to CPA Australia, obtaining absolute assurance is not possible in financial statement audits for a number of reasons, including:

- It would be impractical for the auditor to test and audit every transaction
- Financial statements involve judgements and estimates which often cannot be determined exactly, and may be contingent on future events

This means that strong internal governance and vigilance of the committee is vital to ensure your organisation's internal systems and procedures are robust.

DISCLAIMER: The information contained in this publication is based on knowledge and understanding at the time of March 2016. However, because of advances in knowledge, users are reminded of the need to ensure that information upon which they rely is up to date and to check currency of the information with the appropriate officer of QWALC or the user's independent advisor.