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State of Assurance Choices for Medium Sized Australian Charities

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State of Assurance Choices for Medium Sized Australian Charities

A Research Report for the Auditing and Assurance Standards Board (AUASB)*

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1. Introduction

This research has been undertaken in adherence to the specific research requirements requested by the Australian Auditing and Assurance Standards Board (AUASB). It aims to identify the assurance choices made by a sample of medium-sized charities registered with the Australian Charities and Not-for-profits Commission (ACNC) for reporting period 2018.¹ The main objective of examining this sample is to first provide insights to the AUASB regarding the extent to which charities opt for audit or review engagement, both of which are permissible for medium-sized charities under the ACNC Act.

In accordance with the AUASB's instructions, this report then addresses and presents findings on various aspects, including the specific standard followed by the audit firms when conducting a review, instances of audit qualifications and their basis, reporting on going concern related issues, and the types of audit firms that audit medium-sized charities. This report aims to inform existing standards or the establishment of new ones, with a particular focus on audits of not-for-profit organisations.

2. Sample selection and coding process

Based on annual revenue, charities registered with the ACNC up until 2022² are categorised into small (less than \$250,000), medium (between \$250,000 and \$1,000,000) and large (above \$1,000,000) charities (prior to 2022). The *Australian Charities and Not-for-profit Commission Act 2012* differentiates accounting and auditing provisions according to the charity size. The differentiated accounting and audit requirements are summarised in Table 1.

¹ The sample used in this Research Report consists of Australian medium-sized charities in 2018. The 2018 year was selected because it represents the most recent assurance-related data available in the medium charity sector, given the time-consuming nature of hand-collection. Medium-sized charities refer to those with annual revenue between \$250,000 and \$1 million, as regulated by the ACNC.

² From 1 July 2022 onwards, medium charities will increase with annual revenue of \$500,000 or more, but under \$3 million, with consequential changes for the smaller and larger charity categories. For more details, please refer to: <https://www.acnc.gov.au/tools/topic-guides/charity-size>.

Table 1: Summary of accounting and audit requirements for ACNC purposes in 2018

Size	Annual revenue	Obligation to lodge an annual financial report	Basis of accounting	Audit requirements
Small	<\$250,000	No	If lodged, accrual basis or cash basis	Report may be reviewed or audited.
Medium	\$250,000 ≤ revenue ≤ \$999,999	Yes	Accrual basis	Financial report must be reviewed or audited.
Large	≥\$1,000,000	Yes	Accrual basis	Financial report must be audited.

The Research Report focuses on medium-sized charitable organisations registered with the ACNC for reporting period 2018. The selection of medium registered charities as the main focus to achieve the aims of this research is due to their requirement to submit an annual assured financial report to the regulator, whilst retaining the flexibility to choose their level of assurance, either through an audit (reasonable level) or a review (limited level).

To ensure the highest level of confidence in the conclusions drawn about the population of medium-sized charities, the main sample includes all charities³ based on the ACNC 2018 Annual Information Statement (AIS) data, available from data.gov.au. Financial data are directly obtained from the AIS data, with assurance data manually collected from charities' audited financial statements lodged with the ACNC. The initial sample consists of 3,882 observations for 2018. After excluding charities for which an audit report cannot be identified,⁴ the final sample size is 3,212.

³ The only exception is that religious and educational charities are excluded from the sample, because they are entitled to special consideration under the ACNC Act. For example, basic religious charities do not need to submit annual financial reports to the ACNC. In addition, prior research commonly excludes educational organizations (Yang and Simnett 2023a), such as the charitable arm of universities, because individual donations are often motivated by personal contact, especially alumni relationships (e.g., M. Yetman and R. Yetman 2013) or document significant differences for universities and colleges (Feng and Elder 2017).

⁴ In some cases, charities were revoked in subsequent years. In other instances, although it is required by the ACNC for medium charities to submit the reviewer's or auditor's report as part of the financial report in the Annual Information Statement, some did not lodge these reports to the ACNC, or include the reviewer's or auditor's report as part of the submitted financial report.

3. Results and discussion

This section reports the results in accordance with the specific research requirements requested by the AUASB. It addresses and provides the following observations with respect to medium charities' assurance choices:

3.1 Instances of audit vs review

Based on a manual review of each assurance report⁵ disclosed in the annual financial reports lodged by medium charities to the ACNC, the results suggest that out of the 3,212 assurance reports, 2,888 are audit reports (89.91%), and 324 are review reports (10.09%). It implies reviews are not widely applied, which is comparable to the findings in Yang and Simnett (2023b) who documented that just 5% of small charities opt for a review engagement when they purchase an assurance service.

It is worth noting that among the 324 review reports, 22 of them (6.79%) did not include a conclusion that was in compliance with the Australian Auditing Standard on Review Engagements. It is important to emphasise that a review provides "limited" assurance, which is a lower level of assurance than that provided by an audit (AUASB 2023a). ACNC (2023) contains an example of a review report for which the conclusion is unmodified is stated as follows:

"Based on our [my] review, which is not an audit, we [I] have not become aware of any matter that makes us to believe that the financial report of [name of registered entity] does not satisfy the requirements of Division 60 of the Australian Charities and Not-for-profits Commission Act 2012 including:

(a) giving a true and fair view of the registered entity's financial position as at 30 June 20XX and of its financial performance for the year [period] ended on that date; and

(b) complying with Australian Accounting Standards and Division 60 of the Australian Charities and Not-for-profits Commission Regulations 2022."

These 22 review reports are deficient in that they include a conclusion which is stated in a positive form, similar to an audit report, such as follows:

⁵ The term assurance report is used to cover both audit and review reports.

“In our [my] opinion, the accompanying financial report of [name of registered entity] is in accordance with Division 60 of the Australian Charities and Not-for-profits Commission Act 2012, including:

- (a) giving a true and fair view of the registered entity’s financial position as at 30 June 20XX and of its financial performance for the year [period] then ended; and*
- (b) complying with Australian Accounting Standards and Division 60 of the Australian Charities and Not-for-profits Commission Regulations 2022.”*

These 22 reports are categorised as review reports on the basis that the assurance provider explicitly stated in the assurance report that “I have **reviewed** the accompanying financial report of [name of registered entity]...”. Therefore, they indicate a lower level of assurance compared to audits. This highlights the concern that some practitioners appear to be confused about the distinction between audits and reviews, or at least how to make this distinction clear in their assurance report. As a result, users of these reports may mistakenly assume they have received the same level of assurance as an audit, rather than a lower level of assurance. Users might consequently make decisions based on such review reports with a higher level of confidence than what the reviews actually offer. This misunderstanding could lead to increased risk that misstatements will not be detected by the assurance provider, potentially leading to financial losses or other negative outcomes for stakeholders relying on the reports. It highlights the importance of AUASB (2023a) which provides guidelines to help entities understanding the differences between an audit and a review.

Table 2 summarises the instances of assurance level by the profile of the charities in accordance with their size, main activity of the charity, and the state/territory in which the charity is based. Analyses have been performed over three samples: 1) the entire sample (n=3,212); 2) the subsample of audit reports (n=2,888), and 3) the subsample of review reports (n=324), respectively.⁶

⁶ The ACNC recognises that the revenue reported by some ‘medium’ charities may be larger than the threshold in any 1 year, which might be explained, usually by a one-off event impacting revenue. For example, a large bequest, or similar one-off event, may mean that a charity’s size changes for just one reporting period. If the charity’s size changes, and it is likely to return to its previous size in future reporting periods, the charity can apply to have its former size recognised for that single reporting period (and, therefore, not have to meet the reporting and audit obligations imposed on a larger charity).

Panel A summarises the size of the charities in terms of the mean, median and range (min and max) for each of total assets, liabilities, revenues, gross income, expenses, employee numbers. For the entire medium-sized charity sample, the mean total assets are \$2.13 million with a range between \$0 and \$244 million. The average liabilities, revenue, income, and expenses of the medium charities were \$268,924, \$534,874, \$558,484, and \$503,894, respectively. The average number of full-time staff was 1.23 with the maximum number being 70.

In the subsample of audit reports, the mean total assets amount to \$2.08 million, while for those who opt for a financial statement review, the average assets held are \$2.57 million.⁷ T-tests indicate that the difference is statistically insignificant. While t-tests show that there are no significant differences in total liabilities and total gross income between audits and reviews, charities undergoing financial statement audits have significantly higher total revenue, total expenses, and a larger number of full-time staff, when compared to those that choose to have their financial statements reviewed at the 1% level of significance ($p < 0.01$).⁸

Panels B and C summarise the sample by the main activity of the charity, and the state/territory in which the charity is located. T-tests suggest that charities operating in Victoria are more likely to choose to have their financial statements reviewed rather than audited, while the proportion of audits is significantly higher than reviews in the Australian Capital Territory, Northern Territory, Queensland, Tasmania, and Southern Australia. There is no significant difference in the level of assurance in New South Wales and Western Australia.

⁷ A further analysis reveals that the observed outcome is primarily driven by the charities which are mainly engaged in grant-making activities. As shown in Panel B of Table 2, there are 228 grant-making charities which choose audits (comprising 8% of audits), and 69 that choose reviews (comprising 21% of reviews). These organisations possess a substantial amount of assets from which they accrue interest or dividends, typically distributing all or a portion of these earnings to other charities. By definition, their interest-bearing assets exceed their income (interest or dividends), rendering them relatively straightforward to assure. Descriptive statistics indicate that the average total assets for those grant-making charities opting for audits stand at \$ 5.7 million, significantly lower than those opting for reviews (with an average total assets of \$7.2 million). Among the 228 audit engagements, 25% are audited by Big 4 audit firms, significantly lower than 64% being audited by Big 4 among the 69 review engagements.

⁸ As a sensitivity test, analyses were conducted by excluding grant-making charities. Results suggest that there are no significant differences in total assets and total liabilities between charities that opt for audits and those that opt for reviews. However, charities selecting audits exhibit a significantly higher level of total gross income, total revenue, total expenses, and a larger number of full-time staff, compared to those choosing reviews.

Table 2. The profile of charities choosing audit vs review

Panel A: Sample by size

Size	Mean	Median	Min	Max
Entire sample (n=3,212)				
Assets (\$)	2,131,003	553,005	0	244,146,435
Liabilities (\$)	268,924	79,000	0	31,821,342
Revenues (\$)	534,874	490,921	248,769	1,612,915
Income (\$)	558,484	508,134	-2,196 ⁹	7,727,694
Expenses (\$)	503,894	448,765	0	14,038,177
Total staff – full time	1.23	0	0	70
Subsample of audit (n=2,888)				
Assets (\$)	2,081,489	553,464	0	244,146,435
Liabilities (\$)	277,484	83,670	0	31,821,342
Revenues (\$)	539,519***	496,070	248,769	1,612,915
Income (\$)	560,560	509,624	-2,196	7,727,694
Expenses (\$)	510,912***	456,049	0	14,038,177
Employee numbers	1.27***	1	0	70
Subsample of review (n=324)				
Assets (\$)	2,572,350	547,602	0	25,361,480
Liabilities (\$)	192,624	43,378	0	7,811,954
Revenues (\$)	493,474***	457,861	250,025	996,830
Income (\$)	539,979	494,916	22,325	1,903,528
Expenses (\$)	441,339***	400,466	741	1,798,936
Employee numbers	0.82***	0	0	6

*Statistical significance at the 0.1 level, two-tailed.

**Statistical significance at the 0.05 level, two-tailed.

***Statistical significance at the 0.01 level, two-tailed.

⁹ There is one charity whose reported total revenue is \$251,498 and its total income is \$-2,196 due to net losses on movement in net market values.

Panel B: Sample by main activities*

Main Activities	Entire sample		Subsample of audit		Subsample of review	
	Number	Rate	Number	Rate	Number	Rate
Aged care activities	143	4%	137	5%	6	2%
Animal Protection	54	2%	43	1%	11	3%
Civic and advocacy activities	155	5%	146	5%	9	3%
Culture and arts	379	12%	343	12%	36	11%
Economic, social and community development	442	14%	388	13%	54	17%
Emergency relief	157	5%	142	5%	15	5%
Employment and training	86	3%	73	3%	13	4%
Environmental activities	124	4%	116	4%	8	2%
Grant-making activities	297	9%	228	8%	69	21%
Hospital services and rehabilitation activities	41	1%	35	1%	6	2%
Housing activities	159	5%	150	5%	9	3%
Income support and maintenance	24	1%	20	1%	4	1%
International activities	63	2%	54	2%	9	3%
Law and legal services	50	2%	48	2%	2	1%
Mental Health and Crisis Intervention	96	3%	88	3%	8	2%
Other health service delivery	219	7%	203	7%	16	5%
Other philanthropic	83	3%	80	3%	3	1%
Other recreation and social club activity	76	2%	70	2%	6	2%
Research	76	2%	63	2%	13	4%
Social services	438	14%	414	14%	24	7%
Sports	42	1%	40	1%	2	1%
Not indicated	8	0%	7	0%	1	0%
Total	3,212	100%	2,888	100%	324	100%

*The list of main activities is provided by the ACNC in the AIS database.

Panel C: Sample by state/territory

State/territory	Entire sample		Subsample of audit		Subsample of review	
	Number	Rate	Number	Rate	Number	Rate
Australian Capital Territory (ACT)	78	2%	75	3%	3	1%*
New South Wales (NSW)	1,023	32%	922	32%	101	31%
Northern Territory (NT)	47	1%	46	2%	1	0%*
Queensland (QLD)	476	15%	443	15%	33	10%**
South Australia (SA)	199	6%	189	7%	10	3%**
Tasmania (TAS)	110	3%	105	4%	5	2%**
Victoria (VIC)	789	25%	658	23%	131	40%***
Western Australia (WA)	300	9%	270	9%	30	9%
Not Specified	190	6%	180	6%	10	3%
Total	3,212	100%	2,888	100%	324	100%

*Statistical significance at the 0.1 level, two-tailed.

**Statistical significance at the 0.05 level, two-tailed.

***Statistical significance at the 0.01 level, two-tailed.

3.2 When they do a review, what assurance standard is this under?

Table 3 provides a summary of the standards that auditors follow when offering review services to a medium charity. Overall, 62% of the assurance providers (200 out of 324) have applied Auditing Standard on Review Engagements ASRE 2415 *Review of a Financial Report: Company Limited by Guarantee or an Entity Reporting under the ACNC Act or Other Applicable Legislation or Regulation*, while 13% (43 out of 324) complied with Auditing Standard on Review Engagements ASRE 2400 *Review of a Financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity*, and 10% (32 out of 324) followed Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Out of the 324 review engagements, including those that where the assurance provider applied multiple Auditing Standards on Review Engagements, a total of 287 (89%) clearly indicate the appropriate assurance standards were followed when conducting review engagements.

The remaining 37 (11%) review reports are less explicit or incorrect regarding the standard the assurance provider follows when providing review services. Out of the 324 review engagements, 18 assurance providers stated that the review engagement was conducted in accordance with Australian Auditing Standards, 4 indicated compliance with Australian Accounting Standards, and 3 stated compliance with Australian Auditing Standard on Review Engagements. There was 1 case stating that they were following Australian Reviewing Standards; 1 case following Australian Auditing and Professional Ethical Standards; 1 case following ASRE 24510,¹⁰ and 1 case following Standard on Assurance Engagements ASAE 3100 *Compliance Engagements*. Another 8 assurance providers did not disclose the standard they were using when performing the review engagement.

¹⁰ This is likely a typo, as there is no ASRE 24510 under Australian Auditing Standards.

Table 3. Standards conducted for review engagements

Standards	Frequency	Percentage
<i>Acceptable standards</i>		
ASRE 2415	200	62%
ASRE 2400	43	13%
ASRE 2410	32	10%
ASRE 2410 & ASRE 2415	10	3%
ASRE 2400 & ASRE 2415	2	1%
Sub-total	287	89%
<i>Imprecise, incorrect or no reference to standards</i>		
Australian Auditing Standards	18	6%
Australian Accounting Standards	4	1%
Australian Auditing Standard on Review Engagements	3	1%
Other*	4	1%
Not disclosed	8	2%
Sub-total	37	11%
Total review engagements	324	100%

* The other standards include 1 case of Australian Reviewing Standards; 1 case of Australian Auditing and Professional Ethical Standards; 1 case of ASRE 24510; and 1 case of ASAE 3100.

3.3 Instances of qualifications and for the basis of qualification

Panel A in Table 4 shows that, of the 2,888 audit reports, 2,345 (81.20%) had unmodified opinions (2,181 with unqualified opinions + 163 with unqualified opinions plus an emphasis of matter and/or other matter paragraph), while 543 (18.80%) of them are modified. Specifically, 504 of them are qualified opinions, six are disclaimers of opinion, and the remaining 33 had qualified opinions also containing additional explanatory language such as emphasis of matter and/or other matter.¹¹ Of the 324 review reports, 287 (88.58%) included unmodified conclusions (274 with unqualified conclusions + 13 with unqualified conclusions plus an emphasis of matter and/or other matter paragraph), whereas 37 (11.42%) have modified conclusions (35 qualified conclusions + 2 qualified conclusions plus additional explanatory language).

Panel B further summarises the most frequently referred to reasons for qualifications in the assurance reports. The most common reason for qualification in both audit reports and review reports is in relation to the limitation of the entities'

¹¹ No adverse opinions were observed.

internal controls over cash donations and other fund-raising activities. An example of this type of qualification is:

“As is common for organisations of this type, it is not practicable for [name of registered entity] to maintain an effective system of internal control over administrative fees, donations, fund raising activities and other income until their initial entry in the accounting records. Accordingly, our audit in relation to income was limited to amounts recorded in the financial records.”

For the total of the 2,888 audit engagements, 17.21% of the audit reports have issued a qualified opinion based on the limitation of entities’ internal control over cash donations and other fund-raising activities. For the total of the 324 review engagements, 8.33% mention significant uncertainty relating to the auditing of cash donation revenue due to insufficient internal control.

In addition, untabulated results indicate that the main reason for emphasis of matter paragraphs is the basis of accounting. An example is that

“We draw attention to Note [No.] to the financial report, which describes the basis of accounting. The financial report has been prepared to assist of [name of registered entity] to meet the requirements of the Australian Charities and Not-for-Profits Commission Act 2012. As a result, the financial report may not be suitable for another purpose. Our opinion is not modified in respect of this matter”.

Table 4. Instances of qualifications

Panel A: Types of audit opinions/review conclusions

Audit opinions/ Review conclusions	Audit		Review	
	Frequency	Percentage	Frequency	Percentage
Unqualified	2,181	75.52%	274	84.57%
Unqualified plus EOM or other matter	164	5.68%	13	4.01%
Total unmodified	2,345	81.20%	287	88.58%
Qualified	504	17.45%	35	10.80%
Adverse	0	0.00%	0	0%
Disclaimer	6	0.21%	0	0%
Qualification plus EOM or other matter	33	1.14%	2	0.62%
Total modified	543	18.80%	37	11.42%
Total	2,888	100%	324	100%

Panel B: Reasons for qualifications

Reasons#	Audit		Review	
	Frequency	Percentage	Frequency	Percentage
Limitation of entities' internal control over cash donations and other fundraising activities	497	17.21%	27	8.33%
Other limitation of scope	48	1.66%	3	0.93%
The previous financial statement is audited by a different auditor; Unable to audit opening balances	18	0.62%	8	2.47%
Departure from accounting standards	10	0.35%	2	0.62%
Other accounting issues	12	0.42%	1	0.31%
Total	2,888		324	

The reasons identified are not exclusive to each other as there could be several issues raised in an audit report.

3.4 Going concern reporting

Table 5 presents the instances of auditor reporting on material uncertainty in relation to going concerns (MURGCs). Among the audit sub-sample, 116 of 2,888 (4.02%) have going concern related language. For the review sub-sample, 9 of 324 (2.78%) contain going concern related language. This proportion is comparable to the rate of going-concern modified audit opinions in the large charity sector, where the financial statements of all large charities must be audited. This rate stands at 4%, as documented by Yang et al. (2022).

Regarding the locations where going concern opinions (GCOs) were reported, in the audit sub-sample, 51 cases (43.97%) were reported in the MURGC paragraph; 44 cases (37.93%) in the emphasis of matter paragraph; 7 cases (6.03%) in the paragraph titled "emphasis of matter – material uncertainty in relation to going concerns"; 4 cases (3.45%) in the other matter paragraph; and 2 cases (1.72%) in the key audit matter section. In total, 93.10% of the cases the assurance provider did not modify their audit opinions, while the remaining 6.90% gave qualified opinions.

As for the review sub-sample, 3 cases (33.33%) were reported in the MURGC paragraph, and 6 cases (66.67%) were reported in the emphasis of matter paragraph. There were no qualifications in terms of going concern.

Table 5. Instances of going concern paragraph

Where are GC paragraphs reported?	Audit		Review	
	Frequency	Percentage	Frequency	Percentage
MURGC paragraph	51	43.97%	3	33.33%
EOM paragraph	44	37.93%	6	66.67%
Combined MURGC and EOM paragraph#	7	6.03%	0	0%
Other matter paragraph	4	3.45%	0	0%
Qualification paragraph	8	6.90%	0	0%
KAM	2	1.72%	0	0%
Total GC paragraphs	116	100%	9	100%

There are 7 audit reports reporting going concern in the paragraph titled “emphasis of matter – material uncertainty in relation to going concerns”.

3.5 Who is auditing medium charities?

This section provides a summary of the descriptive statistics related to medium charities’ selection of assurance providers. In Table 6, the top 21 assurance providers, measured by the number of entities being assured in the medium charity sector, are listed. The findings reveal that these top 21 assurance providers collectively account for just 21.20% of the entire sector. It highlights the sector’s dynamic nature of the sector and the diverse range of assurance providers operating within it.

Furthermore, Table 6 presents the number of audits and reviews separately for each of the top 21 assurance providers. The results show that KPMG and Deloitte conduct a comparatively larger proportion of reviews, which suggests that these firms potentially have a more well-developed review methodology.

Table 6. Top 21 assurance providers

Rank*	Assurance provider	Entire Sample		Audit		Review	
		Freq.	Percent.	Freq.	Percent.	Freq.	Percent.
1	KPMG	87	2.71%	67	2.32%	20	6.17%
2	Crowe Horwath	63	1.96%	61	2.11%	2	0.62%
2	Deloitte	63	1.96%	36	1.25%	27	8.33%
4	BDO	49	1.53%	46	1.59%	3	0.93%
5	Grant Thornton	33	1.03%	28	0.97%	5	1.54%
5	Nexia	33	1.03%	32	1.11%	1	0.31%
7	Collins & Co	32	1.00%	31	1.07%	1	0.31%
8	Pitcher Partners	31	0.97%	27	0.93%	4	1.23%
9	Moore Stephens	29	0.90%	24	0.83%	5	1.54%
9	Saward Dawson	29	0.90%	23	0.80%	6	1.85%
11	Accru	27	0.84%	25	0.87%	2	0.62%
11	RSM Australia	27	0.84%	26	0.90%	1	0.31%
13	Australian Audit	25	0.78%	25	0.87%	0	0.00%
13	PwC	25	0.78%	22	0.76%	3	0.93%
15	EY	23	0.72%	22	0.76%	1	0.31%
16	PKF Australia	20	0.62%	20	0.69%	0	0.00%
17	Brian Tucker Audit	18	0.56%	18	0.62%	0	0.00%
17	StewartBrown	18	0.56%	18	0.62%	0	0.00%
19	HLB Mann Judd	17	0.53%	15	0.52%	2	0.62%
20	Bentleys	16	0.50%	12	0.42%	4	1.23%
20	Stannards Accountants and Advisors	16	0.50%	12	0.42%	4	1.23%
	Sub-total	681	21.20%	590	20.43%	91	28.09%
	Total	3,212	100%	2,888	100%	324	100%

*Some assurance providers share the same rank because they had an equal number of clients in the sample.

According to the ACNC Act, for medium-sized charities, the audit or review must be conducted by:

- a registered company auditor (as defined by the Corporations Act 2001)
- an audit firm, or
- an authorised audit company.

A review may also be conducted by a current member of a relevant professional body (CPA, CAANZ or IPA) who is qualified to undertake a review (in line with the Corporations Act 2001).

Therefore, an analysis of the types and the audit professional qualifications of the assurance providers is provided in Table 7. By categorising the assurance providers based on audit firm size, Panel A of Table 7 shows that for the audit sub-sample, just 5.09% of them are audited by Big 4 audit firms, whereas 15.74% of the review engagements are conducted by Big 4 audit firms. Further, whether the auditor reported their relevant professional qualifications (i.e., either they have CPA, CA or IPA membership status, or are a registered company auditor) is manually checked. About 71.19 percent of them disclose their qualifications in the audit report, while 73.77 percent report their professional qualifications in the review report. Finally, results show that 438 of the 2,888 audit providers are individual auditors, accounting for 15.17 percent in our sample, while the proportion of individual auditors in the review engagements is 16.98 percent.

T-tests show that, compared to non-Big 4 audit firms, Big 4 audit firms are significantly more likely to provide review engagements than audit engagements. There is no significant difference in terms of professional qualification or reported affiliation with type of audit firm between audit and review engagements.

In addition, Panel B and Panel C of Table 7 present the characteristics of assurance providers by examining whether they communicate the auditors' expertise to undertake the audit, among Big 4 audit firms and individual auditors. Panel B reveals that partners of Big 4 firms are significantly less inclined to disclose their accounting qualifications, compared to non-Big 4 firms, both in the audit and review sub-samples. This observation may be attributed to the reputation of Big 4 firms, which might be taken to imply certain standards for partner qualifications and experience.

Panel C shows that 86.76% of individual assurance providers report their professional qualifications in the audit-subsample, and 83.64% do the same in the review subsample. In other words, less than 20% of the individual auditors do not explicitly communicate their professional qualifications, and for this group it is unclear from the assurance report as to whether they meet the ACNC Act requirement to be an authorised assurance provider.

Table 7 The types of assurance providers

Panel A: Assurance providers by size, professional qualification, and affiliation with audit firms

Assurance provider	Audit		Review	
	Frequency	Percentage	Frequency	Percentage
<i>By size</i>				
Big 4	147	5.09%	51	15.74%
Non-Big 4	2,741	94.91%	273	84.26%
<i>By professional qualification</i>				
Auditors reporting their qualification	2,056	71.19%	239	73.77%
Auditors not reporting their qualification	832	28.81%	85	26.23%
<i>By reported affiliation with audit firm</i>				
Individual auditor only	438	15.17%	55	16.98%
Audit firm affiliation reported	2,450	84.83%	269	83.02%
Total	2,888	100%	324	100%

Panel B: Assurance providers by Big 4 and professional qualification

		Audit (n=2,888)		Review (n=324)	
		Frequency	Percentage	Frequency	Percentage
Big 4	Auditors reporting their qualification	40	25.85%	27	52.94%
	Auditors not reporting their qualification	107	74.15%	24	47.06%
	Total Big 4	147	100%	51	100%
Non-Big 4	Auditors reporting their qualification	2,018	73.62%	212	77.66%
	Auditors not reporting their qualification	723	26.38%	61	22.34%
	Total non-Big 4	2,741	100%	273	100%

Panel C: Assurance providers by affiliation with audit firm and professional qualification

		Audit (n=2,888)		Review (n=324)	
		Frequency	Percentage	Frequency	Percentage
Individual auditor only	Auditors reporting their qualification	380	86.76%	46	83.64%
	Auditors not reporting their qualification	58	13.24%	9	16.36%
	Total Big 4	438	100%	55	100%
Audit firm affiliation reported	Auditors reporting their qualification	1,676	68.41%	193	71.75%
	Auditors not reporting their qualification	774	31.59%	76	28.25%
	Total non-Big 4	2,450	100%	269	100%

4. Summary

In summary, this report examines a sample of medium-sized charities that have lodged their financial report accompanied by an assurance report with the ACNC for the reporting period 2018. It provides findings regarding the choices made by charities between audit services and review services, while also identifying potential assurance quality concerns when conducting review engagements.

First, the results suggest that out of the 3,212 assurance reports, 2,888 are audit reports (89.91%), and 324 are review reports (10.09%). Among the 324 review reports, 22 of them (6.79%) did not include a conclusion that is in compliance with the Australian Auditing Standard on Review Engagements, presenting conclusions that resemble audit opinions (positive form) instead of review conclusions (negative form). Regarding the entity characteristics, evidence suggests that charities that opt for audits are larger than those opting for reviews in terms of total revenue, total expenses, and the number of employees. This implies that review engagements are not widely employed in the medium charity sector, and some practitioners and users do not fully understand the difference between audits and reviews.

Second, among the 324 review reports, 287 (88.58%) clearly indicate that they conduct the review engagements in accordance with ASRE 2415 *Review of a Financial Report: Company Limited by Guarantee or an Entity Reporting under the ACNC Act or Other Applicable Legislation or Regulation*, ASRE 2400 *Review of a Financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity*, and/or ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. The remaining 11.42% are less explicit in terms of the standard under which they perform the reviews. This lack of clarity raises the

possibility of potential non-compliance with assurance standards and can lead to confusion among stakeholders who rely on these reports. It is essential for auditors to explicitly state the applicable assurance standard to ensure transparency, compliance, and accurate understanding of the review engagements by all stakeholders.

Third, of the 2,888 audit reports, 2,181 (75.52%) are unqualified opinions/unmodified audit reports, 163 (5.64%) are unqualified opinions plus emphasis of matter and/or other matter paragraphs, 504 (17.45%) are qualified opinions, 6 (0.21%) are disclaimers of opinion, and 33 (1.14%) are qualified opinions also containing additional explanatory language such as emphasis of matter and/or other matter. No adverse opinions were observed. Of the 324 review reports, 274 (84.57%) are unqualified conclusions/unmodified review reports, 13 (4.01%) are unqualified conclusions with explanatory language, 35 (10.80%) have qualified conclusions, and 2 (0.62%) have qualified conclusions with explanatory language. The most common reason for modification in both audit reports and review reports is related to the limitation of entities' internal control over cash donations and other fund-raising activities, aligning with the AUASB (2023b) work focus on these particular issues.

Fourth, in terms of the instances of auditor reporting on material uncertainty in relation to going concern (MURGCs), for the audit sub-sample, 116 of 2,888 (4.02%) have going concern related language. For the review sub-sample, 9 of 324 (2.78%) contain going concern related language. Most of them are reported in an emphasis of matter paragraph or MURGC paragraph, which do not modify the audit opinions.

Fifth, regarding the assurance providers, the medium charity sector exhibits a dynamic and diverse assurance market. The review sub-sample shows a significantly higher proportion of Big 4 audit firms (15.74%) compared to the audit sub-sample (5.09%). Further, 15.17% of the audit engagements and 16.98% of the review engagements are performed by individual assurance providers without audit firm affiliation. Among these individual assurance providers, over 10% did not communicate their audit professional qualifications. While *ASA 700 Forming an Opinion and Reporting on a Financial Report* does not specifically require disclosure of qualifications in the audit report, the ACNC requires that the audit or review must be conducted by a registered company auditor, an audit firm, or an authorised audit company. A review may be conducted by a current member of a relevant professional

body (CPA, CA ANZ or IPA) who is qualified to undertake a review. It remains unclear whether they meet ACNC's requirement to be an authorised assurance provider.

These insights can be instrumental in informing the AUASB's (2021a; b; 2023a) efforts to enhance auditing and assurance standards in the context of less complex entities, particularly not-for-profit organisations. Some audit firms (e.g., KPMG; Deloitte) undertake a notably large proportion of reviews, indicating a potential strength in their review methodologies. Exploring the possibility of sharing insights for refining review methodologies could be an area of interest for the AUASB. This could commence with comprehending these firms' methodologies and incorporating any valuable tips they offer.

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