# Enhancing not-for-profit reporting

*Part B: Enhancing financial reporting (New Zealand)*
October 2019

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# 1. Introduction

*This part of the publication* ***Enhancing not-for-profit reporting*** *provides recommendations and guidance to enhance financial reporting by not-for-profits (NFPs) and charities in New Zealand. Although financial reporting is largely dictated by legislation and accounting standards, many opportunities exist to enhance the clarity and usefulness of financial statements.*

As well as providing recommendations to enhance NFP and charity financial reporting, Part B brings together for your convenience guidance from CA ANZ and other sources, covering:

- Overview: New Zealand NFP reporting requirements
- Guidance when producing a financial report: frequently asked questions
- Future developments

Part B *Enhancing financial reporting (New Zealand)* is designed to complement the recommendations and guidance contained in Part A: *Enhancing performance reporting* which includes:

- Enhancing performance reporting for NFPs, including guidance and recommendations on service performance reporting
- Enhancing assurance for NFPs.

# 2. Recommendations to enhance NFP and charity financial reporting

*The following recommendations are designed to enhance the quality of financial reporting by NFPs and charities, based on insights from members of the CA ANZ CNFP Advisory Committee, Charities Services, and learnings from the CA ANZ Charity Reporting Awards (New Zealand).*

For impactful reporting:

- Tier 3 and 4 charities preparing simple format financial reports are likely to find the first 5 recommendations listed relevant, supplementing the guidance on reporting service performance information in Part A.
- For Tier 1 and 2 charities preparing comprehensive financial reports, the majority of the recommendations are likely to be relevant.

De-clutter by applying the 3 Rs:

- **Remove** immaterial or irrelevant financial report disclosures that have built up over time. This helps to remove irrelevant or redundant disclosures, generally leading to a shorter report
- **Re-order** and re-label accounting policies and detailed notes so that they better reflect the key financial measures and focus on areas of most relevance to the entity. This can include using section headers and call-out boxes to highlight key matters for the period such as critical accounting judgements or estimates
- **Re-write** technical wording into plain English, whilst still fully complying with relevant accounting standard and regulatory requirements.

CA ANZ Perspective report: De-cluttering financial reports
Bernie Szentirmay, CA, Partner KPMG and Simon Dubois, CA, Senior Manager KPMG
October 2015

## Enhancing financial reporting: overall recommendations

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| **1. Ensure you adopt the appropriate reporting framework** | ▶ In determining the appropriate reporting framework, consider the size tests and also whether the entity has public accountability (as defined).<br>**Tip:** you can find more guidance on this below. |
| **2. Prepare one annual report for multiple purposes** | ▶ Consider preparing only one high quality report, containing both narrative telling your entity's story, and full financial statements. This can be used in multiple ways including filing with Charities Services, saving duplication of effort and spreading the message about the entity's good work. Currently some entities elect to include summary financial information in their annual report, and prepare separate financial statements that are filed with Charities Services, whilst others extract their financials from the annual report for filing. |
| **3. Tailor reporting templates to your entity** | ▶ If your entity's performance and/or financial report is based on a reporting template, ensure it is are tailored to the entity. Templates can be a very useful base to assist in efficiently preparing reports, especially for Tier 3 and 4 charities using the XRB templates.<br>▶ Removing notes that are not applicable, deleting lines where this year's and last year's figures are zero and changing generic wording where appropriate can be effective and simple ways to enhance your report. |
| **4. Clearly identify the financial statements** | ▶ Remember the financial statements are generally not the only document that must be prepared and lodged. Clearly identify the financial statements and distinguish them from other information in the same published documents. |
| **5. Include the relevant legislation in the 'Basis of Preparation' note** | ▶ Where financial statements are prepared in accordance with certain legislative requirements, refer to that legislation in the basis of preparation note within the financial statements. |
| **6. Streamline and de-clutter your financial report** | ▶ At a time when NFPs and charities are competing for donations and grants, streamlining and de-cluttering your financial statements can be an effective technique to increase stakeholder engagement by improving its structure and making it more concise. |
| **7. Consider adopting the reduced disclosure regime** | ▶ If the entity is presenting a financial report and seeking to reduce complexity, consider applying the reduced disclosure regime if eligible as a Tier 2 entity. If reporting under PBE Standards Reduced Disclosure Regime (RDR), disclose the criteria that establish the entity as eligible to report in accordance with PBE Standards RDR. |
| **8. Consider whether additional disclosures are necessary for transparency** | ▶ Consider providing additional disclosures when compliance with the specific requirements in PBE Standards is insufficient to enable users to understand the impact of particular transactions on the entity's financial position and financial performance. |
| **9. Assess whether asset values are impaired** | ▶ Ensure the carrying value of assets is not greater than their recoverable amount. Recoverable amount can be determined using the higher of fair value or value in use.<br>▶ Annually review impairment indicators in order to determine whether a recoverable amount calculation is necessary, and, if necessary, undertake and document a recoverable amount calculation. |
| **10. Consider designating equity investments at fair value through other comprehensive revenue and expense** | ▶ Under PBE IFRS 9 *Financial Instruments* organisations can, on initial recognition, make an irrevocable election to present subsequent changes in the fair value of an investment in an equity instrument in fair value through other comprehensive revenue and expense. This would protect the entity from significant market downturns impacting its operating results. |
| **11. Review the classification of liabilities – current or non-current** | ▶ Undertake a review of terms and conditions of liabilities, especially borrowings, to ensure the correct classification of liabilities.<br>▶ PBE IPSAS 1 *Presentation of Financial Statements* requires a current classification when "the entity does not have an unconditional right to defer settlement of a liability for at least 12 months after the reporting date".<br>▶ Any of the following scenarios may mean the unconditional right to defer settlement does not exist:<br>• An annual review clause in the banking agreement.<br>• Current facilities expiring within 12 months of the end of the financial year.<br>• Breach of any terms/covenants. |

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| **12. Assess whether there is an economic dependency on grants** | ▶ If the entity receives grants, consider the impact on its financial performance and position if the grants were not received. If the entity's financial performance and/or financial position would be adversely affected, include a note in the financial report disclosing the economic dependence. |
| **13. Disclose estimates and accounting policy judgements specific to the entity** | ▶ Estimates and judgements disclosed should be specific to the entity – a generic note is not recommended. The disclosure requirements are principles based and need to include all information necessary for stakeholders to understand the estimates and judgements made and their effect on the entity. This may include key assumptions, reasons for judgements, alternative treatments and appropriate quantification. |
| **14. Disclose expenses by nature or function, and avoid classifying large amounts as 'other' or 'administration expenses'** | ▶ Be consistent in the way expenses are described and disclosed; either by nature OR function. Cost of sales is an example of an expense classified by function whereas employee benefits and depreciation are expenses classified as nature.<br>▶ For meaningful disclosure, avoid classifying large amounts as 'Other' or 'Administration expenses'. |
| **15. Consider whether the going concern basis of preparation is appropriate** | ▶ If the entity is considering future changes in structure such as mergers or amalgamations, this may mean it is no longer a going concern. |
| **16. Determine whether donated goods and services need to be disclosed** | ▶ Determine whether it is appropriate to acknowledge the use of donated goods or services which have not been recognised in the financial statements. For example if the entity relies on donated goods and services including volunteer services, information on how donated resources have contributed to the entity's service performance may be more useful than cost information. |
| **17. Include comprehensive investment disclosures if the entity has a significant investment portfolio** | ▶ If the entity holds a significant investment portfolio consider the disclosure requirements of the financial instruments standards, even if it is applying PBE Standards RDR. In particular, consider disclosing the entity's sensitivity to market price risks associated with these assets. |
| **18. Disclose related-party transactions specific to the entity** | ▶ As every organisation is unique the related party disclosures of nature, amount and balances outstanding must be specific to the entity – a generic note will not meet the requirements of PBE IPSAS 20 *Related Party Disclosures*. |

# 3. Overview: New Zealand NFP reporting requirements

*This section summarises CA ANZ's publication Guidance for Not-for-Profit Financial Reporting in New Zealand which guides you through the definition of an NFP, the financial reporting requirements, relevant accounting standards and provides a listing of the legislative requirements for NFPs in New Zealand.*

## Record keeping, reporting and assurance requirements

- Statutory record keeping, reporting and assurance requirements for NFPs are set out in the legislation that governs their legal form.
- For registered charities these are set out in the *Charities Act 2005*. All charities must keep written records of accounts and prepare general purpose financial reports. The form of the financial report, and whether it is required to be audited or reviewed, depends on the size of the charity.
- In some cases, an NFP's rules may require financial statements in accordance with GAAP, or an audit or review, even if it is not required by law. NFPs should also have regard to funding or lending arrangements, which may impose reporting and/or assurance obligations.

**Tip:** An entity can be subject to more than one piece of legislation (eg an incorporated society can also be a registered charity). If this is the case, then the highest legislative requirements apply.

### Learn more:

You can find this publication Guidance for Not-for-Profit Financial Reporting in New Zealand at: https://www.charteredaccountantsanz.com/member-services/technical/reporting/not-for-profit-reporting

## Accounting standards applicable to NFPs

NFPs that have a statutory requirement to prepare financial reports need to apply the XRB's accounting standards framework for NFP Public Benefit Entities (PBE). Under this framework there are four tiers of reporting, with the accounting standards becoming progressively simpler as the entity moves down the tiers.

### Key definitions

#### Public benefit entity (PBE)

XRB A1 *Application of the Accounting Standards Framework* defines PBEs as reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders.

#### NFP PBE

NFP PBEs are PBEs that are not public sector PBEs.

#### Public accountability

Public accountability is defined as when an entity holds cash or assets on behalf of others as one of their main activities.

The accounting standards framework for NFPs is shown in the table below. Tier 1 is the default tier for all NFPs. However, an entity may elect to apply the accounting standards of a lower tier if it meets the criteria for that tier.

| Tier | Criteria | NFP Accounting Standards | Reporting requirements |
|---|---|---|---|
| 1 | Public accountability; or Expenses >$30m | PBE Standards<br>(Includes PBE FRS 48 *Service Performance Reporting*, applicable to annual financial reports covering periods beginning on or after 1 January 2021). | **Financial Report:** Service performance information (from 2021) plus full financial statements |
| 2 | No public accountability; and Expenses ≤$30m | PBE Standards RDR<br>(Includes PBE FRS 48 *Service Performance Reporting*, applicable to annual financial reports covering periods beginning on or after 1 January 2021). | **Financial Report:** Service performance information (from 2021) plus full financial statements (RDR) |
| 3 | No public accountability; and Expenses ≤$2m | PBE Simple Format Reporting – Accrual (Not-For-Profit) (SFR-A (NFP)) | **Performance Report:** Entity Information, Statement of Financial Performance, Statement of Financial Position, Statement of Service Performance, Statement of Cash Flows, Statement of Accounting Policies (including Notes) |
| 4 | No public accountability; and:<br>• Registered charities – payments <$125k<br>• Other entities – if permitted by an Act to report in accordance with non-GAAP because it does not meet the legislative size threshold to be a "specified not-for-profit entity" | PBE Simple Format Reporting – Cash (Not-For-Profit) (SFR-C (NFP)) | **Performance Report:** Entity Information, Statement of Service Performance, Statement of Receipts and Payments, Statement of Resources and Commitments (this does not need to balance), Statement of Accounting Policies (including Notes) |

### Learn more:

View the XRB's accounting standards for NFPs https://www.xrb.govt.nz/accounting-standards/not-for-profit/

Charities Services has a range of resources to assist in the running of a charity in the community hub at Community Resource Kit at:
https://community.net.nz/.
This includes guidance on applying the reporting standards for registered charities at:
https://community.net.nz/resources/charities-services/reporting-standards-for-registered-charities/

# 4. Guidance when producing a financial report: frequently asked questions

*This section answers a number of frequently asked questions in relation to NFP and charity financial reports.*

## Where can I find templates and guidance to assist with the financial reporting regime for NFPs?

**1** CA ANZ's *Guidance for Not-for-Profit Financial Reporting in New Zealand* at: https://www.charteredaccountantsanz.com/member-services/technical/reporting/not-for-profit-reporting

**2** CA ANZ provides links to illustrative financial reports which is updated regularly. The links provided for June 2019 include:

- PwC PBE Standards Disclosure Checklist 2019 at https://www.pwc.co.nz/services/audit-and-assurance/financial-reporting/financial-reporting-tools/pbe-standards-disclosure-checklist.html
- Audit New Zealand Model Financial Statements for public sector PBEs. As explained by Audit New Zealand "While these model financial statements are designed specifically for Crown entities, entities in other sectors using the PBE accounting standards may also find these useful."
  https://www.auditnz.govt.nz/good-practice/mfs-under-pbe-standards

**3** Charities Services provides more information at: https://www.charities.govt.nz/reporting-standards/tier-1-and-tier-2/

**4** Charities Services, through the XRB, provides templates including the minimum information that must be disclosed by a Tier 3 and 4 Charities in New Zealand at: https://www.charities.govt.nz/reporting-standards/

## Where can I find examples of good charity reporting?

**1** CA ANZ's Charity Reporting Awards recognise charities that have embraced reporting requirements and have been innovative in the way they communicate their performance to stakeholders. Winners range in size from national organisations through to local ones and their reports can be used by other NFPs as a benchmark for good reporting. You can find the winners and highly commended for 2019 at:
https://www.charteredaccountantsanz.com/news-and-analysis/news/new-zealand-charity-reporting-awards-winners-announced or https://charities.govt.nz/news-and-events/hot-topics/new-zealand-charity-reporting-awards/

**2** Charities Services provides a link to Tier 1 and 2 example financial reports to help you prepare your own at: https://www.charities.govt.nz/reporting-standards/tier-1-and-tier-2/example-financial-reports/

## How can I keep up to date with developments in NFP reporting?

Chartered Accountants and other interested people can subscribe to the CA ANZ Reporting and Assurance Newsletter at: https://www.charteredaccountantsanz.com/member-services/technical/reporting

Charities Services and the XRB also provide updates on their websites, as do all of the major accounting firms. You can sign up to the XRB updates at:
https://www.xrb.govt.nz/sign-up/ and the Charities Services newsletters at https://charities.govt.nz/.

# 5. Future developments

*In September 2019, the following developments are anticipated to impact on the reporting regime for NFPs in New Zealand.*

## Accounting standards framework review

The XRB is currently conducting a Targeted Review of the New Zealand Accounting Standards Framework. One of the specific matters being reviewed is whether the PBE tier size criteria need to be revisited (for NFP and public sector entities).

The XRB also plans to conduct a separate standards-level review of the Tier 3 and Tier 4 PBE Simple Format Reporting Requirements shortly after the completion of the targeted review of the Accounting Standards Framework. This separate review will consider whether refinements to current requirements or more guidance is needed to assist smaller NFPs apply the specific reporting requirements within these standards.

## Legislation review

Work is underway to modernise the *Charities Act 2005*, with public consultation closing in May 2019. One suggestion being canvassed is the introduction of a new 'micro entity' tier for charities with $10,000 or less operating expenditure. These charities would not need to comply with the XRB reporting standards.

The *Incorporated Societies Act 1908* is also under review, with a Bill expected to be introduced into Parliament later in 2019. Key amendments proposed in relation to reporting are incorporated societies which are not registered charities will be required to report using XRB standards when they satisfy one or more of the following criteria:

- Annual payments of $10,000 or more
- Assets of $30,000 of more
- "Donee status" under the Income Tax Act 2007.

The proposed new legislation proposes a mandatory audit requirement where incorporated societies, which are not registered charities, satisfy one of the following criteria:

- Annual expenditure over $2 million
- Assets over $4 million.