The changing face of charity financial reports

The content of registered charity financial reports has been overhauled

TOP FIVE TIPS FOR REPORTING UNDER THE NEW REQUIREMENTS

1. Work out which tier you will report under and hence which accounting standards you need to apply in preparing the financial report.
2. If you are reporting under tier 3 or 4, use the financial report templates developed by the XRB[7]. These will help you comply with the simple format reporting standards.
3. Simple format reports must apply either accrual accounting (tier 3) or cash accounting (tier 4). You cannot apply a mix of both.
4. Some financial information has to be entered into the annual return. This is in addition to that presented in the financial report. They are separate requirements.
5. Ensure that the financial information in the annual return and the financial report is consistent before uploading.

Recent legislative change has resulted in a comprehensive reform of the financial reporting landscape. The main implications for charities are as follows:

1. All charities are required to prepare their financial reports in accordance with new accounting standards[1]
2. Some charities are required to have these financial reports audited or reviewed[2]
3. These audits and reviews must be carried out by a qualified auditor[3]

The aim is to improve the quality, consistency and comparability of charity financial reports. Significant amounts of money flow through charities and, due to the exemption from income tax, improved accountability and transparency is in the public interest.

FINANCIAL REPORTING REQUIREMENTS

Until now, there have been no rules around how charities prepare their financial reports. There are now accounting standards that determine how charities should account for their activities, and prescribe the minimum content of financial reports. Financial reports for the year ending 31 March 2016 will be the first prepared under these new accounting standards.

The External Reporting Board (XRB), an independent Crown entity, develops and issues accounting standards in New Zealand. Four different reporting tiers have been developed (see table above), and this allows smaller charities to prepare financial statements on a simplified basis.

Public accountability has a specific definition which is different to everyday usage. For reporting purposes an entity has public accountability if it holds cash or assets on behalf of others as one of its main activities. This is typically the case for banks, credit unions and insurance providers. It is expected that very few charities will meet this definition because that will not be their main activity.

It is anticipated that approximately 97% of charities will be able to use the tier 3 or 4 simple format reporting standards.

Tier	Criteria	NFP accounting standard(s)
1	"Public accountability[4]"; or Operating expenses >$30m	PBE Standards
2	No public accountability; and Operating expenses ≤$30m	PBE Standards RDR
3	No public accountability; and Operating expenses ≤$2m	PBE Simple Format Reporting Standard – Accrual (SFR-A (NFP))
4	No public accountability; and Operating payments <$125k*	PBE Simple Format Reporting Standard – Cash (SFR-C (NFP))

*For the two preceding accounting periods

Size	Definition	Assurance requirement
Large	Operating expenses ≥$1m*	Audit
Medium	Operating expenses ≥$500k*	Review

*For the two preceding accounting periods

Compared to the tier 1 and 2 standards, they allow for simpler recording of transactions and fewer disclosures. The XRB has also developed optional financial report templates, along with guidance, so you do not have to start with a blank page. Plus there is some transitional relief whereby comparatives are not required for the first year, the financial report for the previous year is just required to be attached.

ASSURANCE REQUIREMENTS

For balance dates from 31 March 2016, some charities now have a legal requirement to have their financial reports audited or reviewed (see table above). Note that these size thresholds are significantly lower than those for the reporting tiers.

Charities with operating expenses of less than $500,000 are not required by law to have an audit or review. However, a charity may be required to have its financial report audited or reviewed for other reasons, for example; by its founding documents (eg rules or constitution), by a funding provider, or it may elect do it voluntarily.

In addition, from years ending 30 June 2016, the audits and reviews of large and medium charity financial reports must be carried out by a 'qualified auditor'. A register of qualified auditors is available on our website[5].

ANNUAL RETURN

All charities have a separate legal requirement to file an annual return with the Department of Internal Affairs (DIA) Charities Services within six months of balance date[6]. Through the annual return, Charities Services will monitor charities' compliance with these new reporting and assurance requirements.

Charities Services has an emphasis on education and information in the first instance, recognising that most charities want to do the right thing. However, they do have the power to apply penalties where charities fail to comply with these new reporting and assurance requirements. Fines of up to $50,000 can be imposed against the charity, and in some cases every officer, where obligations are not met.

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1 Section 42A, Charities Act 2005
2 Section 42C, Charities Act 2005
3 Section 42C, Charities Act 2005
4 Paragraphs 7—13, Standard XRB A1 Application of the Accounting Standards Framework
5 http://charteredaccountantsanz.com/en/Site-Content/find%20an%20accountant
6 Section 41, Charities Act 2005
7 https://www.xrb.govt.nz/Site/Accounting_Standards/Current_Standards/Standards_for_Not-For_Profit_PBEs/Stds_for_Not-For-Profit_T1-4.aspx#t3