

Enhancing Not-for-profit and Charity Reporting

Part B: Enhancing Financial Reporting (New Zealand)
November 2021

About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand (CA ANZ) represents more than 131,000 financial professionals, supporting them to make a difference to the businesses, organisations and communities in which they work and live. Chartered Accountants are known as Difference Makers. The depth and breadth of their expertise helps them to see the big picture and chart the best course of action.

CA ANZ promotes the Chartered Accountant (CA) designation and high ethical standards, delivers world-class services and life-long education to members and advocates for the public good. We protect the reputation of the designation by ensuring members continue to comply with a code of ethics, backed by a robust discipline process. We also monitor Chartered Accountants who offer services directly to the public.

Our flagship CA Program, the pathway to becoming a Chartered Accountant, combines rigorous education with practical experience. Ongoing professional development helps members shape business decisions and remain relevant in a changing world.

We actively engage with governments, regulators and standard-setters on behalf of members and the profession to advocate in the public interest. Our thought leadership promotes prosperity in Australia and New Zealand.



**DIFFERENCE
MAKERS™**

Copyright: This document is protected by copyright. Other than for the purposes of and in accordance with the Copyright Act 1968 (Cth) / Copyright Act 1994 (NZ), this document may only be reproduced, published, stored in a retrieval system or communicated in whole or in part provided that it is not amended or adapted without express prior written permission and the ownership of copyright by Chartered Accountants Australia and New Zealand ABN 50 084 642 571 is attributed at all times.

Disclaimer: This Guide has been prepared for use by members of Chartered Accountants Australia and New Zealand (CA ANZ) in Australia and New Zealand only. It is not intended for use by any person who is not a CA ANZ member and/or does not have appropriate expertise in the Guide's subject matter. This Guide is intended to provide general information and is not intended to provide or substitute legal or professional advice on a specific matter. Laws, practices and regulations may have changed since publication of this Guide. You should make your own inquiries as to the currency of relevant laws, practices and regulations. No warranty is given as to the correctness of the information contained in this Guide, or of its suitability for use by you. To the fullest extent permitted by law, CA ANZ is not liable for any statement or opinion, or for any error or omission contained in this Guide and disclaims all warranties with regard to the information contained in it, including, without limitation, all implied warranties of merchantability and fitness for a particular purpose. CA ANZ is not liable for any direct, indirect, special or consequential losses or damages of any kind, or loss of profit, loss or corruption of data, business interruption or indirect costs, arising out of or in connection with the use of this publication or the information contained in it, whether such loss or damage arises in contract, negligence, tort, under statute, or otherwise. MCT-28107(NZ) Oct21



Contents

Acknowledgements	4
Introduction	5
1. Overview: New Zealand NFP and charity reporting requirements	6
1.1 Record keeping, reporting and assurance requirements	6
1.2 Accounting standards applicable to NFPs	6
2. Recommendations to enhance NFP and charity financial reporting	8
2.1 Enhancing financial reporting: overall recommendations	9
3. Guidance when producing a financial report: frequently asked questions	12
3.1 Where can I find templates and guidance to assist with financial reporting for NFPs and charities?	12
3.2 Where can I find examples of good NFP and charity reporting?	13
3.3 How can I keep up to date with developments in NFP and charity reporting?	13
4. Future developments	14
4.1 Post-implementation review of the Simple Format Reporting Standards	14
4.2 Legislation reviews	14

Acknowledgements

CA ANZ acknowledges the time and expertise donated by Jamie Cattell CA,
Chair of the CA ANZ Charities and Not-for-Profit (CNFP) Advisory Committee.



Introduction

This part of the publication 'Enhancing Not-for-profit and Charity 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
- Recommendations to enhance financial reporting for NFPs and charities
- 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 and charities, including guidance and recommendations on service performance reporting
- Enhancing assurance for NFPs and charities



1. Overview: New Zealand NFP and charity 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.

LEARN MORE:

You can find this publication at: <https://www.charteredaccountantsanz.com/member-services/technical/reporting/not-for-profit-reporting>

1.1 Record keeping, reporting and assurance requirements

- Statutory record keeping, reporting and assurance requirements for NFPs are set out in the legislation the entity is established under, which depends on its legal form.
- For registered charities these are set out in the *Charities Act 2005*. All charities must keep accounting records 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 founding documents may require financial statements to be prepared in accordance with generally accepted accounting principles (GAAP), and be audited or reviewed, 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.

1.2 Accounting standards applicable to NFPs

NFPs that have a statutory requirement to prepare general purpose financial reports need to apply the External Reporting Board (XRB) accounting standards framework for NFP Public Benefit Entities (PBE). Under this framework there are four tiers of reporting, with the accounting requirements being proportional to the size of the entity.



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 its main activities.

The accounting standards framework for NFPs is shown in the table below. Tier 1 is the default tier, however, an NFP may elect to apply the accounting requirements of a lower tier if it meets the criteria to report under that tier.

Tier	Criteria	NFP Accounting Standards	Reporting requirements
1.	Public accountability; or Expenses >\$30m	PBE Standards (Includes PBE FRS 48 <i>Service Performance Reporting</i> , applicable to annual financial reports covering periods beginning on or after 1 January 2022).	Financial Report: Service performance information (from 2022) plus full financial statements
2.	No public accountability; and Expenses ≤\$30m	PBE Standards RDR (Includes PBE FRS 48 <i>Service Performance Reporting</i> , applicable to annual financial reports covering periods beginning on or after 1 January 2022).	Financial Report: Service performance information (from 2022) plus full financial statements (with reduced disclosure requirements)
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: • Registered charities – payments <\$125k • Other entities – if permitted by an Act to report in accordance with non-GAAP and 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

- XRB A1 Application of the *Accounting Standards Framework* sets out the accounting standards framework for entities preparing general purpose financial reports <https://www.xrb.govt.nz/accounting-standards/not-for-profit/xrb-a1/>
- View the XRB's accounting standards for NFPs <https://www.xrb.govt.nz/accounting-standards/not-for-profit/>

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).

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



2.1 Enhancing financial reporting: overall recommendations



For impactful reporting

- Tier 3 and 4 charities preparing simple format financial reports are likely to find the first 5 recommendations 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.

Recommendation	Guidance on the recommendation
1. Ensure you adopt the appropriate accounting requirements	In determining the appropriate accounting requirements, consider the eligibility criteria including size tests and also whether the entity has public accountability (as defined).
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 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. 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 RDR, disclose the criteria that establish the entity as eligible to report in accordance with PBE Standards RDR.

Continued overleaf >

2.1 Enhancing financial reporting: overall recommendations *continued*

Recommendation	Guidance on the recommendation
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	<p>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.</p> <p>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.</p>
10. Consider designating equity investments at fair value through other comprehensive revenue and expense	Under PBE IFRS 9 <i>Financial Instruments</i> and PBE IPSAS 41 <i>Financial Instruments</i> (effective from 1 January 2022) 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	<p>Undertake a review of terms and conditions of liabilities, especially borrowings, to ensure the correct classification of liabilities.</p> <p>PBE IPSAS 1 <i>Presentation of Financial Statements</i> 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”.</p> <p>Any of the following scenarios may mean the unconditional right to defer settlement does not exist:</p> <ul style="list-style-type: none"> • An annual review clause in the banking agreement. • Current facilities expiring within 12 months of the end of the financial year. • Breach of any terms/covenants.
12. Assess whether there is an economic dependency on grants	<p>If the entity receives grants, consider the impact on its financial performance and position if the grants were not received.</p> <p>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.</p>
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.

Continued overleaf >

2.1 Enhancing financial reporting: overall recommendations *continued*

Recommendation	Guidance on the recommendation
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. 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, any related party disclosures, including the nature, amount and balance outstanding, must be specific to the entity – a generic note will not meet the requirements of PBE IPSAS 20 <i>Related Party Disclosures</i> .

3. Guidance when producing a financial report: frequently asked questions

This section answers some frequently asked questions in relation to NFP and charity financial reports.

3.1 Where can I find templates and guidance to assist with financial reporting for NFPs and charities?

- 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>
- CA ANZ provides links to illustrative financial reports which is updated regularly at: <https://www.charteredaccountantsanz.com/tools-and-resources/client-service-essentials/reporting/qa-illustrative-financial-reports-june-2021> The links provided for June 2021 include:
 - PwC PBE Standards Disclosure Checklist 2021 <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.parliament.nz/good-practice/mfs-and-commentary>
- The XRB has issued Explanatory Guide (EG) A5 Tier 3: Applying PBE simple format reporting – Accrual (Not-for-profit) <https://www.xrb.govt.nz/accounting-standards/not-for-profit/explanatory-guide-eg-a5/> and EG A6 Tier 4: Applying PBE simple format reporting – Cash (Not-for-profit) <https://www.xrb.govt.nz/accounting-standards/not-for-profit/explanatory-guide-eg-a6/>
- The XRB provides templates, including the minimum information that must be disclosed, for Tier 3 and 4 entities at: <https://www.xrb.govt.nz/accounting-standards/reporting-templates/>
- More recently the XRB has issued a new simpler two page reporting template for smaller Tier 4 charities at: <https://www.xrb.govt.nz/accounting-standards/not-for-profit/pbe-sfr-c-nfp/simpler-reporting-format-for-smaller-tier-4-charities/>
- Charities Services has several resources, including reporting guidebooks for Tier 3 and Tier 4 registered charities at: <https://www.charities.govt.nz/reporting-standards/>
- CommunityNet Aotearoa has a range of resources to assist in the running of a charity at: <https://community.net.nz/>

3.2 Where can I find examples of good NFP and charity reporting?

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 charities and NFPs as a benchmark for good reporting. You can find the winners and highly commended for 2021 at: <https://www.charteredaccountantsanz.com/news-and-analysis/news/winners-of-nz-charity-reporting-awards-announced>

Charities Services showcases example financial/performance reports to help you prepare your own:

- **Tier 1 and 2:** <https://www.charities.govt.nz/reporting-standards/tier-1-and-tier-2/example-financial-reports/>
- **Tier 3:** <https://www.charities.govt.nz/reporting-standards/tier-3/tier-3-example-performance-reports/>
- **Tier 4:** <https://www.charities.govt.nz/reporting-standards/tier-4/tier-4-example-performance-reports/>

3.3 How can I keep up to date with developments in NFP and charity reporting?

Members of CA ANZ, as well as non-members, 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 professional services firms. You can sign up to the XRB updates at <https://www.xrb.govt.nz/sign-up/> and the Charities Services newsletters at <https://www.charities.govt.nz/news-and-events/newsletters/>



4. Future developments

As of September 2021, the following developments are anticipated to impact on the reporting regime for NFPs in New Zealand.

4.1 Post-implementation review of the Simple Format Reporting Standards

Earlier this year the XRB conducted a post-implementation review of the Tier 3 and Tier 4 Standards. Respondents to the consultation highlighted several areas where improvement could be made. The XRB has published a feedback statement which outlines the main issues raised by respondents and the XRB's next steps in response to those issues. <https://www.xrb.govt.nz/reporting-requirements/review-of-simple-format-reporting-standards/>

4.2 Legislation reviews

Charities Act 2005

Work is underway to modernise the *Charities Act 2005*, with targeted consultation on specific issues related to reporting requirements for small registered charities and other key issues that closed in July 2021. One suggestion being considered 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 standards and instead may be required to complete a simplified template or only submit annual return to Charities Services.

Incorporated Societies Act 1908

A draft Bill to replace the *Incorporated Societies Act 1908* was introduced to Parliament in March 2021. One key proposal in the Bill is in relation to reporting by incorporated societies which are not registered charities. All societies would be required to report using XRB standards when they have:

- annual operating expenditure of \$10,000 or more; or
- total assets of \$30,000 or more; or
- "donee status" under the *Income Tax Act 2007*.

The Bill also proposes introducing a mandatory audit requirement for large incorporated societies, which are not registered charities, when they have:

- total revenue over \$30 million; or
- total assets over \$60 million.

The Select Committee has reported back on the Bill recommending it be passed with the following amendments:

- The reporting thresholds be increased to total current assets of \$50,000 or more or total operating payments of \$50,000 or more.
- The audit thresholds be removed from the Bill and be prescribed by regulations instead.

Financial Reporting (Inflation Adjustments) Regulations 2021

The *Financial Reporting (Inflation Adjustments) Regulations 2021* have been issued and increase various reporting and audit thresholds specified in legislation to account for inflation, including the meaning of:

- "Specified not-for-profit entity" in section 46 of the *Financial Reporting Act 2013*. Total operating payments increase from \$125,000 to \$140,000.
- "Large" in section 42D of the *Charities Act 2005*. Total operating expenditure increases from \$1 million to \$1.1 million.
- "Medium" in section 42D of the *Charities Act 2005*. Total operating expenditure increases from \$500,000 to \$550,000.
- "Large" in section 45 of the *Financial Reporting Act 2013*. Assets increase from \$60 million to \$66 million and revenue increases from \$30 million to \$33 million.

These regulations come into force on 1 January 2022.