



30 September 2022

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April Mackenzie

Chief Executive External Reporting Board

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Tēnā koe April

Consultation – Tier 3 & 4 Not-for-Profit Reporting

Thank you for the opportunity to provide a submission on the proposed improvements to the Tier 3 and Tier 4 Not-For-Profit Reporting Standards. I can see a lot of effort has gone into this mahi. I was also particularly pleased to hear how open your team was to feedback, from sector representatives, on how to make reporting even easier for very small charities at our recent Charities Sector Group meeting.

As you know, Charities Services' functions under the Charities Act 2005 include supporting registered charities to meet their obligations to prepare financial statements that comply with these standards. Our vision is that our work contributes to a well-governed, transparent, and thriving charitable sector with strong public support. We tautoko your focus on ensuring that the reporting requirements do not place an undue administrative burden on the sector, while maintaining transparency and accountability.

The enclosed submission reflects the work that we do as a regulator including our focus on what could negatively impact on the public's trust and confidence in the charities sector, and the feedback we have received from the sector.

Since the introduction of the reporting standards, we have assessed an annual sample of Performance Reports and Financial Statements for compliance. Through this work, we have seen a consistently lower rate of compliance among Tier 4 charities compared to larger charities. When we have engaged with these charities, the feedback is often that they find the reporting standards too difficult. This has influenced our submission.

We support the calls from the majority of submitters who commented on this issue in response to the Discussion Document on the modernisation of the Charities Act. More than two thirds of submitters that commented on this issue favoured reducing reporting requirements for smaller Tier 4 charities. Many submitters noted that the reporting requirements did not reflect the realities of governing a small entity, with limited resources and part-time volunteers.

Implementation is at the top of my mind. Any changes to our forms require our own consultation with the sector, and of course I.T. changes. We're also expecting form changes relating to the Charities Act Amendment Bill. I would really like our teams to work closely together to ensure implementation for the sector is as simple as possible.

Thank you again, we look forward to seeing the outcome of this mahi.

Nāku noa nā

A handwritten signature in blue ink, appearing to read 'Natasha Weight'.

Natasha Weight

Kaiwhakahaere Matua General Manager
Ngā Ratonga Kaupapa Atawhai Charities Services

Our Operational Context

1. Under the Charities Act 2005, Charities Services has several functions. These include educating and supporting registered charities to meet their obligations under the Act, monitoring registered charities, responding to complaints about charities, inquiring into possible breaches of the Act or possible serious wrongdoing, promoting research into charities, and developing forms to support this work. Registered charities have an obligation to file performance reports that meet the standards set by the External Reporting Board.
2. In performing our functions, we take a modern, responsive, risk-based approach. We target our resources and activities on the harms that impact on public trust and confidence in the charitable sector. Transparent and accurate reporting supports us to carry out our functions and supports our vision of a well-governed, transparent, and thriving charitable sector with strong public support.
3. The financial information that is reported in charities' annual performance reports is available on the publicly accessible charities register. The full statements/performance reports can be downloaded from the individual charity's listing on the register. Researchers and others interested in the sector can also search for information at the sector-wide level through the advanced search function. For the financial information to be searchable in this way, it must be included in our annual return form. In 2015, following the introduction of the reporting standards, we amended our annual return forms to align with the minimum reporting categories required by the standards.

General Comments

4. We have noticed a lower rate of compliance among charities reporting under Tier 4 compared with other tiers. Low compliance rates have occurred despite our continued efforts to educate and inform the sector about the reporting standards through a range of mechanisms - including newsletters, webinars, resources, and support for individual charities (through email, telephone, online clinics and face-to-face meetings). However, we note the simplified template for Tier 4s has been met with support by the sector.
5. Within the submissions on the Discussion Document on the modernisation of the Charities Act, some submissions identified reasons why compliance with the standards may be difficult, stating that small charities; "Have insufficient resources (time and money) to meet requirements; lack suitably experienced and qualified personnel or volunteers; have high personnel turnover; find the reporting forms unnecessarily complicated; and have insufficient support materials to assist them."

6. Overall, we support the proposed changes to the Tier 4 standards as striking a balance between reducing the compliance burden and promoting transparency.
7. We generally support the proposal to reduce reporting requirements even further for 'small' Tier 4 NFP entities. We consider the proposal strikes a good balance between reducing the compliance burden and promoting transparency. However, we consider that there could be additional reductions in the reporting requirements for these entities. We set this out below as well as our other comments on the proposed changes.
8. We generally support the changes to the Tier 3 Reporting standard. We set out specific comments below.

Proposed reduced reporting requirements for small Tier 4s

9. We agree with the proposed reduced reporting for small Tier 4s. In addition, we recommend the following further reductions.
10. In the statement of service performance, we consider that it is not necessary for small Tier 4s to describe what they aim to achieve over the medium to long term. We consider that describing significant activities undertaken is sufficient for entities of this size.
11. In relation to significant liabilities, we consider that a description of significant liabilities is sufficient for small Tier 4s. We do not consider that it is necessary for these entities to describe the amount expected to be paid to settle liabilities.

Proposed simplification of Tier 4 Standard

12. We support the removal of optional disclosures from the standard as part of the overall simplification of the standard and reduction in length.
13. The reference to 'outputs' and 'outcomes' in the current Statement of Service Performance is not always understood by non-accountants, and the quality of information reported under these headings can vary widely. We support replacing the terms 'outputs' and 'outcomes' with reporting on objectives and significant activities, as we consider it will make it easier for most non-accountants to understand.
14. We support the change in terminology from receipts and payments to cash received and cash paid, and the proposed new categories. We consider they will be easier for non-accountants to understand and will provide more useful information for the public.
15. We support the proposed simplification of the Statement of Resources and Commitments however we do not support moving it to the notes section. We consider

that moving this requirement to the notes field may be confusing for charities that have previously completed their Statement of Resources and Commitments within the performance report itself.

16. We agree, in principle, with an effective date of 1 April 2024. We note, however, that changes will be required to our annual return forms to reflect changes to the Tier 4 standard. We do not support the option of early adoption as we cannot guarantee that we will have annual return forms in place to support this, given the uncertainty of time frames with early adoption, and the form changes that may be required if the Charities Amendment Bill is enacted. We would like to work closely with you to develop the most effective implementation plan, that will make all upcoming changes as easy as possible for the sector.
17. We consider the signatory requirement should be removed for Tier 4s. This requirement causes administrative difficulties for Tier 4s, as many are predominantly working remotely. Currently, charities must provide a certification when they submit their annual return to Charities Services, which is essentially a proxy for a signature. We consider this is sufficient for Tier 4s.

Proposed simplification of Tier 3 Standard

18. We support the concept of simplifying and expanding the options for charities to report their Statement of Service Performance. However, we consider it is important for data purposes that there is consistency in terminology between tiers to allow comparability.
19. As set out in relation to Tier 4, we consider that removing the 'outputs' and 'outcomes' terminology is an improvement. We note that the new format provides greater flexibility and may encourage broader types of reporting such as sustainability reporting or incorporating Te Ao Māori perspectives.
20. We support the addition of asset valuation within the Tier 3 standard. We consider that the introduction of this will simplify several reporting requirements for charities with large assets. We set out specific comments below:
 - a. We are aware of several charities who either miss opting up when they are using valuation techniques for Property, Plant & Equipment, or opt up without meeting all of the Tier 2 requirements. Allowing this to be done within Tier 3 appears to be a simpler option.
 - b. The introduction of specific information on investment property is useful as we have seen an increasing number of charities who own investment property.
 - c. We also consider that the introduction of financial investments being recorded at market value is beneficial, but note some concerns:

- i. There are a broad range of capabilities within Tier 3 charities. Some charities may do this incorrectly and not have that information audited (if an audit is not required). This could result in skewed sector data.
- ii. Allowing changes in market value to be recorded through revenue and expenses may create major fluctuations in Tier 3 charities, which using the two-year rule may not impact statutory requirements but may give rise to questions or concerns from readers of financial statements.

21. We support the introduction of more minimum categories, as we have received feedback from the sector that providing more categories may provide greater flexibility.
22. We support the revenue recognition approach to only recognise significant grants in the period in which the grants are expected to be used. However, we note a concern with the terminology; we are unsure whether "expectations over use" is a simpler term or concept than "use or return". The use of flowcharts and examples may make this easier to understand.
23. We support clearer information on the opting up requirements, given the proposed changes. The use of the word "shall" could be clarified because it is not clear whether this a requirement or an option. If this is a requirement, the word "must" is more appropriate and unambiguous.
24. We support the inclusion of more structured definitions within the standard, such as the Total Expense definition on page 65. This will make it easier for us to provide support and guidance to the sector with all the information in a single standard.