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New financial reporting requirements: helping the Not for Profit sector navigate complexity

Supporting you with your **transition**

Financial reporting requirements for Not for Profit Public Benefit Entities (NFP PBE)

On 1 April 2014, the new Financial Reporting Act 2013 and the Financial Reporting (Amendments to Other Enactments) Act 2013 came into force. The legislation has resulted in a generational shift in financial reporting obligations, and it will have a significant impact on the Not for Profit (NFP) sector.

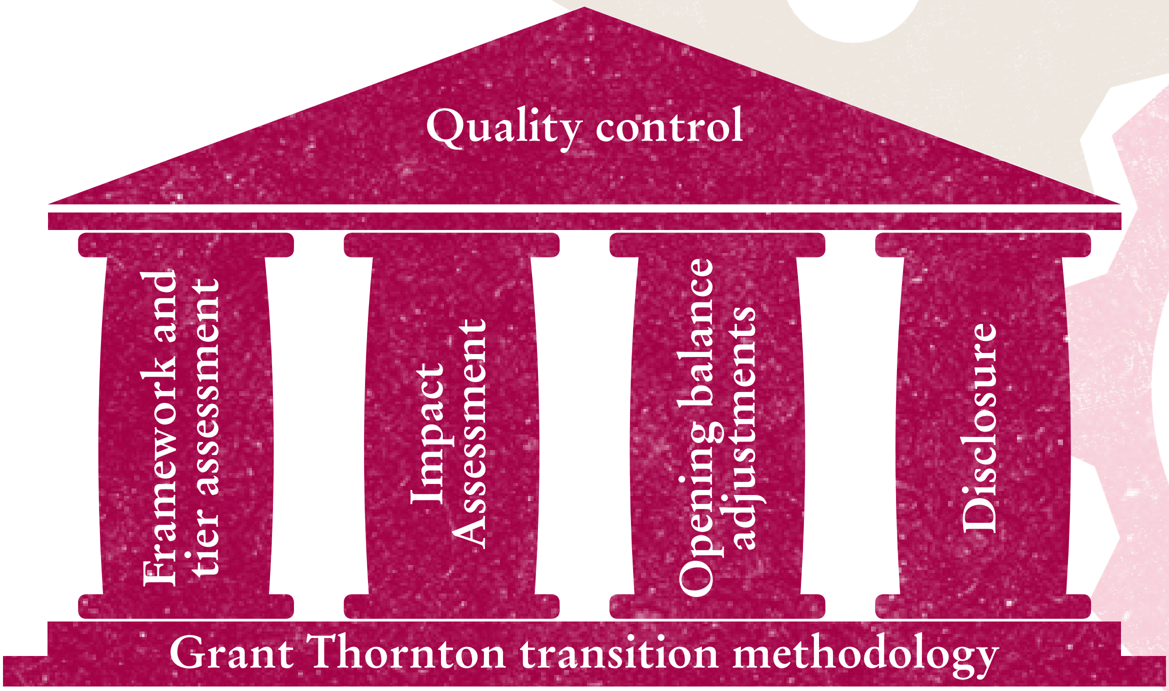
The legislation now prescribes who has to report, and what type of entities are required by law to prepare general purpose financial reports (GPFR). For these entities the External Reporting Board (XRB) now has the role of developing "what" they have to report, ie, the applicable accounting standards that will represent GPFR.

Supporting you with your transition

Grant Thornton has developed a detailed transition methodology that can help you navigate the complex new reporting structure. It supports you through the transition process, and is based on the following four pillar approach:

1. Framework and tier assessment: determination of the correct reporting framework and tier
2. Impact assessment: comparison of current accounting treatments against those required by the new reporting framework
3. Opening balance adjustments: quantification of the impact of the accounting changes and determining the required adjustments
4. Disclosure: determination of disclosure changes required under the new framework.

The foundations of this approach are embedded within a detailed transition methodology and are supported by a comprehensive quality control process to ensure consistency of outcomes.



The impact of the financial reporting framework changes on Not for Profit entities

The new accounting standards framework represents a significant departure from the previous financial reporting direction where a "one size fits all" form of financial reporting operated. While this was a laudable approach, in a country that is essentially made up of micro entities when measured against those on the world stage, this approach caused issues from a usability and compliance cost perspective.

The XRB's new accounting standards framework is based on a two-sector, multi-tier structure with different accounting standards applying to each tier. The two sectors are the for profit sector and the public benefit entity (PBE) sector, the latter of which includes both public sector and Not for Profit entities. The development of accounting standards on a multi-sector, multi-tier basis will result in much more relevant reporting with an improved cost/benefit balance.

The new framework will result in PBEs that are specifically captured by the legislation shifting from NZ IFRS (or old GAAP where this was used) to the new PBE IPSAS regime (or simple format reporting where applicable). Recognition and disclosure differences between the two frameworks may be significant.

The current framework

NFP PBEs with accounting periods commencing prior to 1 April 2015 currently prepare their financial statements in accordance with the following transitional framework. It is based on a three tier system, which will be completely replaced by a new four tier regime going forward for accounting periods commencing after 1 April 2015.

Tier	Entities	Accounting standards applied
Tier 1	Publicly accountable **or** the entity is large[1]	NZ IFRS for PBEs
Tier 2	Non-publicly accountable **and either** all of its owners are members of the entity's governing body; **or** the entity is not large	NZ IFRS Differential Reporting (NZ IFRS Diff Rep)
Tier 3	Non-publicly accountable **and** not required to file financial statements **and** the entity is not large	NZ FRS (also known as "Old GAAP")

The new framework

Historically there has been no legal requirement to comply with accounting standards. While many charities attempted to comply with existing accounting standards, the quality of compliance has been variable. The new framework will have a significant impact on registered charities because they are all captured by the new legislation and regulation. For accounting periods that commence on or after 1 April 2015, financial statements need to be prepared in accordance with the new financial reporting framework below. The exception to this is Not for Profit organisations that are not registered charities. Such entities still have no obligation to prepare GAAP compliant financial statements and accordingly, they may elect to use a special purpose framework instead.

Tier	Entities	Accounting standards applied
Tier 1	Publicly accountable **or** the entity is large[2]	PBE IPSAS
Tier 2	Not publicly accountable **and** the entity is not large[3]	PBE IPSAS reduced disclosure regime (RDR)
Tier 3	Not publicly accountable **and** total expenses less than or equal to $2m	Simple format reporting prepared on an accruals basis
Tier 4	NFP PBEs permitted by legislation that have total expenses less than or equal to $125k[4]	Simple format reporting prepared on a cash basis

[1]An entity is large under the current framework if it meets any two of the following: income > $20m; total assets > $10m; and employees > 50
[2]An entity is large under the new framework if its total operating expenditure > $30m in each of the two preceding years
[3]An entity is not large under the new framework if its total operating expenditure is between $2m and $30m in each of the two preceding years
[4]Assessment needs to be made in each of the two preceding years

Registered charities: other specific changes

In addition to the financial reporting framework changes set out above, registered charities will have the following audit and filing requirements imposed upon them.

Charity size	Required to have an audit or review	Required to file their financial statements
Large (defined as total expenses > $1m)	Yes – must be audited	Yes
Medium (defined as not large and with total expenses > $500k)	Yes – must be reviewed (can elect to have an audit)	Yes
Small (defined as total expenses < $500k)	No	Yes

What are the next steps?

The impact of the financial reporting framework changes will vary significantly depending on the sector and tier an entity is now required to report under. For some not much will change, but for many the accounting changes are likely to be significant and will require some education and mind-set changes. For example, the timing of some revenue recognition may change dramatically.

Effort and resource will need to be applied to understanding the impacts and in achieving the transition from one accounting treatment to another.

A key step in this process is identifying the correct tier that your entity will be required to report under. Once this is established, it will be necessary to determine the impact of transitioning from your existing reporting framework to your new reporting framework.

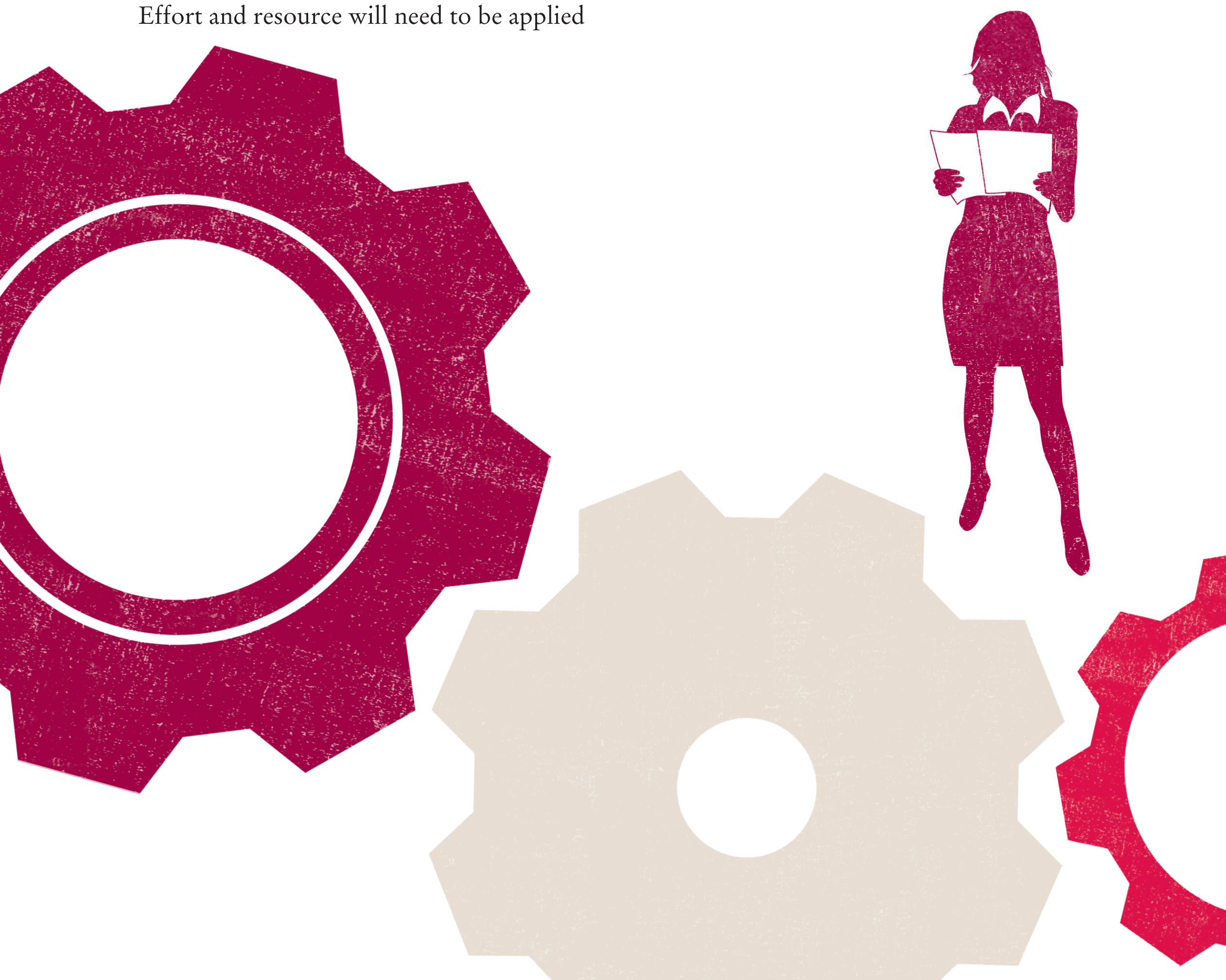
Once the impact of transition has been established, financial statement adjustments can be determined.

Lastly, it will be necessary to assess the new disclosure requirements relating to your new financial reporting tier.

Where can I find more information?

The amendments to New Zealand's accountancy standards framework can be found in XRB A1 and XRB A2, and they can be downloaded from the XRB website - www.xrb.govt.nz

The Financial Reporting Act 2013 and the Financial Reporting (Amendments to Other Enactments) Act 2013 which outlines specific changes for NFPs that are registered charities can be downloaded from www.legislation.co.nz



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