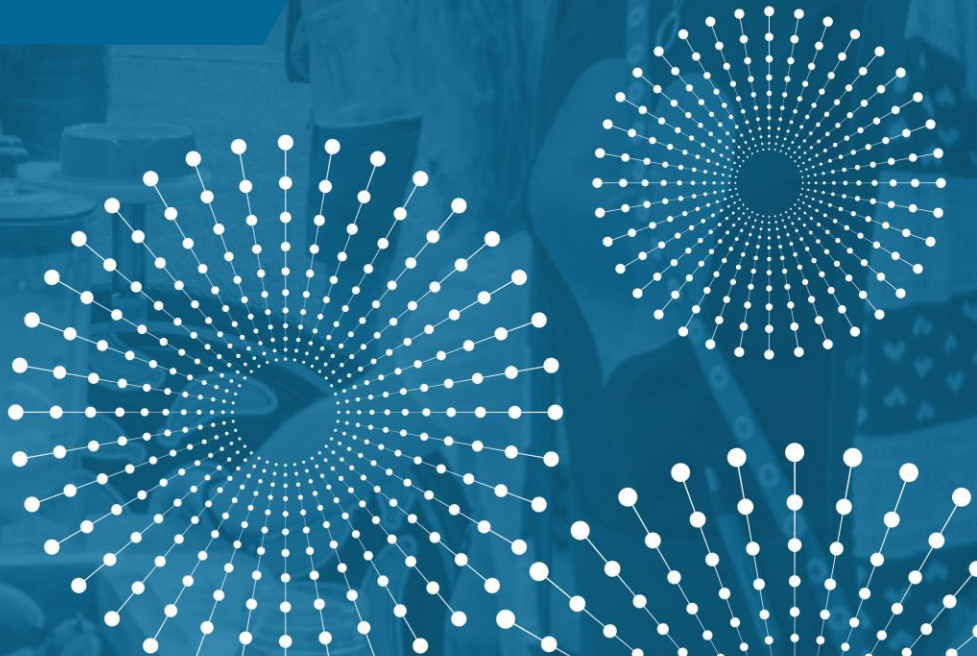


Tier 4 Not-For-Profit Reporting Requirements

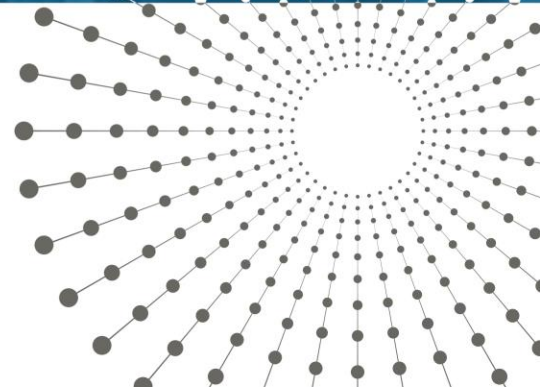
Proposed improvements to the Tier 4 (NFP) Standard

Consultation document



May 2022

Consultation closes 30 September





Contents

1. What is this consultation about?	3
<hr/>	
2. How to provide feedback	4
<hr/>	
3. Proposed improvements	
3.1. Simplification of the Tier 4 (NFP) Standard	5
<hr/>	
3.2. Reporting requirements for small Tier 4 NFP entities	6
<hr/>	
3.3. Service performance reporting	7
<hr/>	
3.4. Categories for presenting cash received and cash paid	8
<hr/>	
3.5. Statement of Resources and Commitments	10
<hr/>	
4. Effective date and other comments	11
<hr/>	



1.

What is this consultation about?

Who is the External Reporting Board (XRB)?

We are the Independent Crown Entity responsible for developing and implementing accounting, audit and assurance and climate reporting standards for New Zealand. We exist to enable the highest quality decision making for resource allocation for the benefit of Aotearoa New Zealand.

About the Tier 4 (NFP) Standard

The Tier 4 (NFP) Standard sets out the reporting requirements for Tier 4 NFP entities when preparing their annual Performance Reports. The Standard is used by NFPs (such as registered charities) with annual operating payments under \$140,000.

The Tier 4 (NFP) Standard is a cash-based standard, which requires an entity to provide information about the cash received and cash paid over the past financial year, together with non-financial information about what the entity has achieved over the same period.

Objective of Tier 4 (NFP) Standard

The Tier 4 Performance Report aims to provide readers with useful and relevant information about an entity's performance for the previous year, including how it has advanced its NFP purpose.

Annual reporting by NFP organisations promotes transparency, accountability, and trust across the NFP sector, which plays a key role in maintaining public support for the invaluable contribution these entities make to New Zealand communities.

Equally, we recognise the need to keep the Tier 4 (NFP) Standard simple to apply, to ensure an appropriate balance is maintained between the benefits and costs of annual reporting.

Why amend the Tier 4 (NFP) Standard

In 2020 we consulted with the sector to assess where improvements could be made, not just in terms of simplification and ease of reporting, but also in terms of the usefulness of the information produced.

The feedback we received highlighted that overall, the Tier 4 (NFP) Standard is working well however, there was strong support to reduce the length and complexity of the Standard to support increased adoption and consistent application.

In response, we are proposing amendments to simplify and improve the Tier 4 (NFP) Standard, which is the focus of this consultation.

Proposed improvements

The proposed improvements include the following key.

- Reducing the length of the Standard and removing complex terminology.
- Introducing reduced reporting requirements for 'small' Tier 4 NFP entities.
- Amending the service performance (non-financial) reporting requirements.
- Clarifying categories for presenting cash received and cash paid.
- Removing the Statement of Resources and Commitments.

The proposed improvements are reflected in the accompanying [Exposure Draft \(ED\)](#) of the Tier 4 (NFP) Standard.



2.

How to provide feedback?

We are seeking feedback on the following questions raised in the consultation document.

Consultation questions

Proposed simplifications

1. Do you agree with the proposed simplifications to the Tier 4 (NFP) Standard?

Reporting requirements for small Tier 4 NFP entities

2. Do you agree with the proposal to reduce reporting requirements for small Tier 4 NFP entities?
3. Are there any proposed reporting concessions for small Tier 4 NFP entities you do not support?
4. Are there any other reporting concessions for small Tier 4 NFP entities that should be considered?

Specific amendments

5. Do you agree with the proposed amendments to the service performance reporting requirements?
6. Do you agree with the proposals to amend the required cash received and cash paid categories?
7. Do you agree with the proposal to remove the Statement of Resources and Commitments and instead require note disclosure about any significant assets or liabilities?

Effective date

8. Do you agree with the proposed effective date of 1 April 2024, with early adoption permitted?

Other comments

9. Do you have any other comments on the proposed improvements to the Tier 4 (NFP) Standard?

Please refer to accompanying [Tier 4 \(NFP\) Standard Exposure Draft](#).

We will consider all feedback received before finalising the proposed amendments to the Tier 4 (NFP) Standard.

Please feel free to comment on any or all of the questions, or any parts of the Tier 4 (NFP) proposed Standard.

We appreciate both formal and informal comments, whether supportive or critical.

We will put all written submissions on our website unless advised otherwise, and we reserve the right not to publish defamatory submissions.

Providing your feedback

You can provide feedback to us via:

- the [online form](#) on our website (this allows you to respond to individual questions); or
- emailing your formal or informal comments to accounting@xrb.govt.nz

The consultation closes on 30 September 2022.



3.

Proposed improvements

3.1 Simplification of the Tier 4 (NFP) Standard

Feedback received

Some preparers are finding it difficult to apply the Tier 4 reporting requirements for the following main reasons.

- The Tier 4 (NFP) Standard and accompanying guidance is too long and complex.
- The language used in the Tier 4 (NFP) Standard is too technical for non-accountants to understand.
- Feedback highlighted that the Tier 4 (NFP) Standard requires simplification to promote increased adoption and consistent application by NFP entities (such as registered charities).

Proposed improvements in response

We have completed a comprehensive review of the Tier 4 (NFP) Standard to identify opportunities to simplify and re-express the existing requirements using plain English and removing technical accounting terms.

Optional disclosures previously included in the Standard have been removed, to allow the Standard to focus on the minimum reporting requirements. These optional disclosures will continue to be made available in separate guidance material.

The process of simplification has resulted in the page count of the Tier 4 (NFP) Standard being reduced from 31 pages to 17.

To illustrate the impact of simplified Tier 4 (NFP) Standard, we have also amended our optional [Tier 4 Reporting Template](#) which provides an easy-to-use approach to completing your annual reporting requirements.

Question

Q1. Do you agree with the proposed simplifications to the Tier 4 (NFP) Standard?

i.e. Do you have any concerns about any content that has been removed and/or re-expressed in the Tier 4 (NFP) ED?



Proposed improvements

3.2. Reporting requirements for small Tier 4 NFP entities

Feedback received

Small Tier 4 NFP entities often have limited resources available and find it difficult to attract and retain volunteers or staff who have experience completing annual reporting requirements in accordance with XRB Standards.

Feedback highlighted the need for the reporting burden to be reduced for small Tier 4 NFP entities to make it easier for them to meet their annual reporting requirements.

Proposed improvements in response

We recognise the compliance burden that smaller Tier 4 NFP entities face when complying with mandatory reporting requirements as issued by the XRB.

To reduce the reporting burden for smaller Tier 4 NFP entities, we propose to introduce reduced reporting requirements within the Tier 4 (NFP) Standard.

A small Tier 4 NFP entity who chooses to apply the reduced reporting requirements would be exempt from certain Tier 4 reporting requirements.

The proposed **reporting concessions** for small Tier 4 NFP entities are marked with a triangle cross symbol – please refer to the accompanying [Tier 4 \(NFP\) Standard Exposure Draft](#).



We have defined a **'small' Tier 4 NFP entity** as an entity:

- that is eligible (as permitted by legislation) to report using the Tier 4 (NFP) Standard; and
- has total annual payments of less than \$10,000 for the current and previous financial years.

The Tier 4 (NFP) ED defines 'total annual payments' as the total amount of cash outflows for the year. It includes any amount paid out of the entity's bank account(s) or cash held on hand during the year.

Questions

- Q2. Do you agree with the proposal to reduce reporting requirements for 'small' Tier 4 NFP entities?
- Q3. Are there any proposed reporting concessions for small Tier 4 NFP entities you do not support?
- Q4. Are there any other reporting concessions for small Tier 4 NFP entities that should be considered?



Proposed improvements

3.3 Service performance reporting

Service performance reporting provides an entity with the opportunity to tell its story about why it exists and what it has done in the year to advance its NFP objectives.

Feedback received

Some preparers are finding the Tier 4 requirements concerning the reporting service performance information (non-financial information about an entity's activities) difficult to apply and understand.

In particular, the requirement to report on "outputs" (as well as the optional disclosure of "outcomes") in the Tier 4 (NFP) Standard is causing confusion, as the terms are not well understood by all preparers.

Proposed improvements in response

We are proposing to remove the language around "outcomes" and "outputs", but retain the requirement for a Tier 4 NFP entity to report on what it is seeking to achieve over the medium to long term (i.e. its 'objectives') and the significant activities undertaken during the reporting period to advance these objectives.

The proposed amendments put the service performance reporting requirements in the Tier 4 (NFP) Standard more in line with those in the Tier 2 PBE Standards (i.e. the recently issued PBE FRS 48 *Service Performance Reporting*).

Tier 4 — Statement of Service Performance

Describes what the entity is aiming to achieve over the medium to long term

Describes the significant activities the entity has undertaken during the financial year to advance its objectives

Quantifies to the extent practicable the significant activities undertaken during the financial year – concession for small Tier 4 entities

Question

Q5. Do you agree with the proposed amendments relating to service performance information?

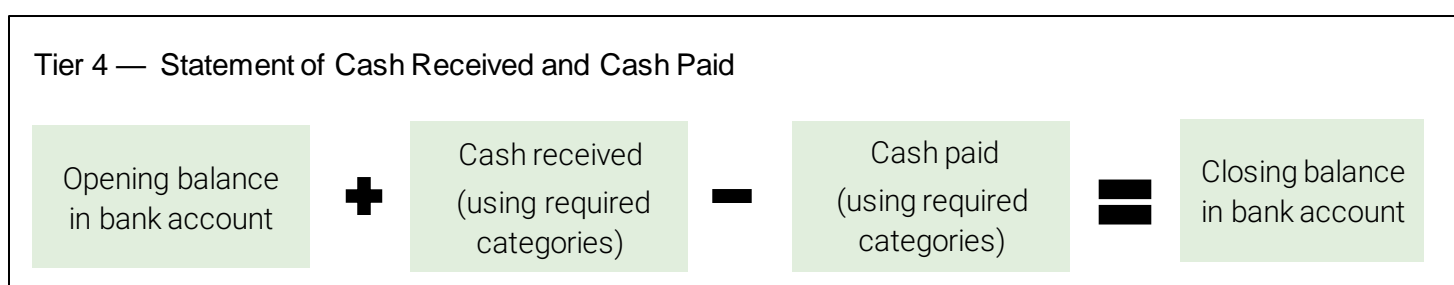


Proposed improvements

3.4 Categories for presenting cash received and cash paid

Tier 4 (NFP) entities are currently required to report the cash received and the cash paid in the financial year by preparing a *Statement of Receipts and Payments* – renamed **Statement of Cash Received and Cash Paid**.

To promote a consistent level of reporting that is comparable and understandable by external users, the Standard requires the cash received and cash paid to be presented using required categories.



Feedback received

- There was general support for maintaining the required categories within the Tier 4 (NFP) Standard.
- However, concerns were raised about application and interpretation challenges when using the current categories.
- Required categories could be improved by introducing additional categories and simplifying the existing categories.

Proposed improvements in response

We have refined the existing categories and added new categories.

The increase in the number of the categories is expected to assist preparers when allocating different types of transactions.

The Tier 4 (NFP) Standard only requires a category to be used when it is applicable and relevant to the reporting entity.

New categories

Sale of goods or services (commercial activities)

We are proposing new categories for cash received and cash paid from the “sale of goods or services (commercial activities)”.

This category includes transactions arising from trading activities, where goods or services are sold on commercial terms for the primary purpose of generating a profit. The profits earned are then used to fund the entity’s NFP purpose.

Refer to the **tables** on the next page for the proposed categories for operating activities in the Tier (NFP) ED.

Service delivery grants/contracts

We are also proposing to introduce a new category, for funding received from “service delivery grants/contracts” for grants that are, in substance, a contract for the delivery of specified goods or services.

For example, a grant received for the delivery of a specified number of counselling service hours.

While the Tier 4 (NFP) Standard already allow these to be optionally separated we are proposing that this should instead be a requirement

This will allow for funding from service delivery grants to be reported separately from general grants – which has also been added as a new category “grant received”.



Proposed improvements

Categories for presenting cash received and cash paid

Table 1 – Cash received categories

Current categories	Proposed categories
Donations, fundraising, and other similar receipts	Donations, koha, bequests, and other fundraising activities
	Grants received (Excluding service delivery grants/contracts)
Receipts from providing goods or services	Funding from service delivery grants/contracts
	Sale of goods or services (commercial activities)
Fees, subscriptions, and other receipts from members	Membership fees or subscriptions
Interest, dividends, and other investment income receipts	Interest or dividends received
	Other cash received

Table 2 – Cash paid categories

Current categories	Proposed new categories
Payments related to public fundraising	Fundraising costs
Volunteer and employee related payments	Employee remuneration
	Volunteer and other employee costs
Payments related to providing goods and services	Costs related to the sale of goods or services (commercial activities)
	Other costs related to the delivery of entity objectives
Grants and donations paid	Grants and donations paid
	Other cash paid

Question

Q6. Do you agree with the proposals to amend the cash received and cash paid categories?



Proposed improvements

3.5 Statement of Resources and Commitments

The purpose of the Statement of Resources and Commitments, as currently required by the Tier 4 (NFP) Standard, is to provide a snapshot of the significant assets owned by the entity and any amounts owed to external parties at the reporting date.

Feedback received

Feedback highlighted concerns about the purpose of a Statement of Resources and Commitments in the Tier 4 (NFP) Standard.

Many respondents considered that it was not useful to impose accrual concepts (such as the reporting of assets and liabilities) through a statement of this nature onto preparers that are applying a cash-based standard.

Proposed improvements in response

It is important that Tier 4 NFP entities continue to provide information about the significant assets held to support their future activities and the liabilities that are expected to be settled in future periods. Therefore, we are proposing the following amendments to the Tier 4 (NFP) Standard.

- Removing the requirement to prepare a Statement of Resources and Commitments.
- Requiring disclosure of significant assets and liabilities in the notes to the Performance Report.
- Requiring disclosure (when significant) of either the amount paid to purchase the asset or the estimated current value of the asset. The value of land and buildings may be estimated using rateable values.
- Requiring for each significant amount owed to an external party, the amount expected to be paid in the future to fully settle the liability.

Example Note — Significant assets	Current financial year \$	Previous financial year \$
Significant amounts owed to the entity by external parties		
Land and buildings		
Investments (shares, bonds, units in managed funds)		
Other significant assets		

Question

Q7. Do you agree with the proposal to remove the Statement of Resources and Commitments and instead require note disclosure about any significant assets or liabilities?



4.

Effective date and other comments

4.1 Effective date

The proposed effective date in the Exposure Draft is accounting periods beginning on or after 1 April 2024, with early adoption permitted.

This date is tentative and would be reviewed before issuing a revised Tier 4 (NFP) Standard.

Question

Q8. Do you agree with the proposed effective date of 1 April 2024, with early adoption permitted?

4.2 Other comments

We welcome any other comments on the proposed improvements and simplifications to the Tier 4 (NFP) Standard as provided in the accompanying [Exposure Draft](#).

Question

Q9. Do you have any other comments on the proposals to simplify and improve the reporting requirements for Tier 4 NFP entities?