# Inflation and statutory reporting thresholds

*After some years of not really being part of the economic discussion in New Zealand inflation is again in the news.  While inflation is generally seen as concerning it can also mean that financial levels set previously may be out of date.*

*Thankfully our legislators have recognised the existence of inflation and have recently revised the statutory thresholds for reporting and auditing for some NZ entities.*

## Financial reporting and assurance

Some types of NZ entities are required by law, due to their nature or significance, to prepare annual financial statements in accordance with accounting standards issued by the External Reporting Board (XRB).

The legislation that specifies these reporting requirements also in some cases specifies audit or review requirements.

The policy logic behind this is that due to their type and/or significance that these entities should have a level of public accountability in order to help maintain public trust and confidence. Requiring them to follow generally accepted accounting standards (GAAP) set by an expert independent Crown Entity standard setter such as our XRB provides a consistent reporting framework to attempt to help achieve this.

The types of entities covered include large companies & partnerships, Friendly Societies and Credit Unions and Charities.   However, a piece of amending legislation called the *Financial Reporting (Inflation Adjustments) Regulations 2021* amends the various bits of core legislation specifying the reporting and assurance requirements.

The following tables kindly provided by the XRB summarise the changes and the new inflation adjusted size levels from 1 January 2022:

| **Size thresholds impacting statutory reporting obligations** | | |
|---|---|---|
| | **Current** | **Inflation adjusted** |
| *Amendments to Financial Reporting Act 2013* (Section 45 & 46) | | |
| Size threshold of a **large** company that is not a subsidiary of an overseas company<br><br>Size threshold of a **large** Limited Partnership | $60 million assets; or $30 million revenue | $66 million asset; or $33 million revenue |
| Size threshold of a "specified not-for-profit entity" | $125,000 total operating payments | $140,000 total operating payments |
| *Amendments to Companies Act 1993* (Section 204) | | |

| | | |
|---|---|---|
| Size threshold of a **large** company that is a subsidiary of an overseas company | $20 million assets; or $10 million revenue | $22 million asset; or $11 million revenue |
| *Amendment to Friendly Societies and Credit Unions Act 1982* (Section 64) | | |
| Size threshold for a registered society or branch who may opt out of reporting requirements | Less than $30 million total operating payments | Less than $33 million total operating payments |

| **Size thresholds impacting audit and review obligations** | | |
|---|---|---|
| | **Current** | **Inflation adjusted** |
| *Amendments to Charities Act 2005* (Section 42D) | | |
| Definition of a "large" for setting mandatory audit requirements for registered charities | $1 million total operating expenditure | $1.1 million total operating expenditure |
| Definition of a "medium" for setting mandatory review requirements for registered charities | $500,00 total operating expenditure | $550,000 total operating expenditure |

## So what will this mean?

Firstly, any entity required to report by law should check to ensure they are reporting in line with the correct level post these inflation adjustments. This inflation adjustment in legislation is a timely reminder to ensure that you are currently reporting at the correct level.

Secondly the likely impacts will probably be relatively minor and impacting a relatively small number of entities. It may be that fewer large companies, partnerships and friendly societies may have GAAP reporting requirements.

As regards charities, it would appear that the threshold change would mean that approximately 300 registered charities (out of the total approximately 28,000) could move down from Tier 3 accrual accounting to the simpler cash accounting Tier 4 reporting if they choose. However, if they are already using accrual accounting it may well be that moving to Tier 4 may be a backwards step for them.

## Summary

So, all in all not a big change. However, it is heartening to see our legislators recognise that financial threshold levels set in legislation require review and amendment from time to time to ensure they remain appropriate.