I’ve seen the future…and I like it!

Over the next few years annual financial reporting is changing for charities and not-for-profit entities in New Zealand. This means different requirements, and given that change is generally painful at first; will it be worth it?
And what result can we expect for most?

Sometimes in life we are lucky enough to get sneak previews of the future. I feel I have just had one of these, and I have to report I feel very heartened…and even excited, for our NFP and charitable sector by what I have seen.

A recap on the changes

Unless you’ve been living in a cave or similar; you should hopefully be aware by now that New Zealand has recently gone through the most significant change to its financial reporting framework in at least 2 generations. The legislation has just about all been enacted and the application dates are marching ever closer.

This legislative change cements the role of the new accounting standard setter and specifies what type of entities in NZ will have to comply with what financial reporting in future. Our accounting standard setter, the External Reporting Board (XRB), has developed the accounting standards framework and now released most of the new accounting standards for the different tiers of reporting entities. The next few years sees these new and different accounting standards progressively take effect for different groups of entities. For registered charities the key application date is accounting periods beginning on or after 1 April 2015.

Anyone wanting the detail on the framework or the new standards can get this from the XRB’s website; www.xrb.govt.nz

Why did we land here?

As those of us who have been fortunate enough to represent New Zealand internationally can attest; we are renowned internationally as a country that is often an early adopter, and as such is sometimes at the leading edge of new innovation. Albeit that being at the leading edge can also equate to being at the bleeding edge! New innovations and early adoption sometimes prove painful as the lessons are not yet learnt.

Back in the early 2000’s there was a move to adopt International Financial Reporting Standards for all entities in New Zealand. While the logic of trying to move to a single set of internationally accepted accounting standards may have seemed like an attractive policy in theory, in practice it was akin to hitting a lot of small nuts with a very large sledgehammer.

Hence as a country we learnt from this well-intentioned, but failed, experiment of trying to impose international financial reporting standards across all entities in New Zealand. Instead we have now developed a two sector, multi-tier accounting standards framework.   This will result in seven different sets of accounting standards operating in New Zealand depending upon the type and size of entity. Initially it may seem more complex to have numerous different accounting standards, and initially this will definitely be the case in learning the different standards. However, this approach will mean that NZ entities should have accounting standards that are much more specific and hence appropriate to their type and size going forward.

Key differences for charities

So what will the changes be?

There will be changes for most entities as regards their accounting treatment. For some this will be minor and for others significant. Some organisations will be moving to simpler accounting treatment, especially for many entities going to Tier 3 and Tier 4. The accounting standards for these Tiers are simple and concise. For others, especially some of these going from old GAAP up to Tier 2 PBE reporting, which is based on International Public Sector Accounting Standards, their accounting will initially be more complex. However due to the vastly different current compliance situations it is impossible to give a “one size fits all” answer.

Instead an entity by entity analysis needs to be undertaken.

But even more than the accounting treatment differences perhaps the most immediate and obvious change is the mandatory requirement to provide the following in annual reports:

1. entity information; and
2. statement of service performance information.

Essentially this is a requirement for what is expected to be mainly non-financial qualitative information to explain the purpose and outcomes of an organisation.

Currently this information is mandated in Tier 3 & Tier 4 accounting standards for PBE entities. The intention however is that this requirement will be retrofitted into Tiers 1 & 2 in the near future. In fact the accounting standards board, the NZASB, already has a project underway developing a new accounting standard for statements of service performance. This project expects to result in the release of an exposure draft for public comment by June 2015 and a new standard released by Dec 2015.

Impacts of explaining the purpose and outcomes of the organisation

It is in this requirement to explain why an organisation exists and what it has achieved that I have had a glimpse into the future.

Having now seen some early adopters prepare their financial statements under the new requirements it is clear to me that this initiative should significantly improve stakeholder communication for the charitable and NFP sector.

I have also been able to show some early adopter examples to funders and like me they also have been able to quickly see the value in this requirement. They advise this is a clear improvement over the current level of information they receive with funding applications. Hence it should allow them to better assess funding requests.

Likely impacts from this new requirement:

A better sense of an organisation's worth – which is not measured in $ and cents!
Focusing the reader on the most important features of the organisation, rather than just financial statements

Prompting boards to think more about their organisation's impact and how they best communicate this.
Prompting boards to critically review their efficiency of delivery as an organisation and their strategy.
Allowing better assessment of and comparability between organisations operating in a similar service delivery area.

This added transparency of purpose, objectives and outcomes of the participants in our NFP sector may be seen as a threat by some. Indeed the sunlight may prove to be a disinfectant for the small minority of organisations that are not in it for the right reasons, or for those performing really poorly. However for those who are committed to making a positive difference to our society, this should be seen as an opportunity to engage with its stakeholders in a more meaningful way,

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About the Author

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