

ANGOA SUBMISSION FINANCIAL REPORTING ACT

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Introduction

ANGOA is a unique network of organisations from across the range of NGOs in Aotearoa New Zealand including national, regional and local groups. Our member organisations are active in the areas of health, education, international development, human rights, the environment, youth, women and ethnicity.

ANGOA facilitates NGO networking around issues of common concern with a particular emphasis on strengthening relationships across the sector and between the sector and government.

ANGOA disseminates information as part of its effort to strengthen the Community and Voluntary Sector in Aotearoa New Zealand.

ANGOA's primary functions are to:

- Provide an independent vehicle for interaction, cooperation, and mutual support and exchange amongst NGOs within Aotearoa New Zealand;
- Work in partnership with appropriate tangata whenua organisations and networks.

ANGOA facilitates the Community Sector [Roundtable](#) which is a monthly forum for the exchange of issues and concerns within the sector. With the Office of the Community and Voluntary Sector and the Families Commission we host the Community Sector [Research Forum](#) which brings together researchers from universities, the community sector and government who are engaged in research related activities relevant to the community sector.

ANGOA has undertaken original research in collaboration with other organisations in New Zealand and internationally. For example the report Mahi Tahī, Working Together: Civil Society in Aotearoa New Zealand (2000) was an international project carried out in association with the Commonwealth Foundation. The Civil Society Index Project (2001) was also an international project sponsored by CIVICUS World Alliance for Citizen Participation.

National Consultation

This submission is made on behalf of ANGOA and its members following a national consultation process.

Following the release by the Ministry of Economic Development and the Accounting Standards Review Board (the "ASRB") of discussion documents on the Review of the Financial Reporting Framework ("RFRF"), ANGOA in collaboration with the Not for Profit Committee of the Institute Of Chartered Accountants and with financial assistance from the Ministry of Economic Development, organized 13 workshops which were held in major centres across New Zealand commencing on November 10 and completed on December 15th 2009.

The workshops were targeted at and designed for non-profit entities. In preparation for the workshops, a small working group was established to analyse the discussion documents and prepare a briefing paper which was distributed to workshop participants and the wider sector. The workshops were intended to encourage organisations in the community sector to make submissions on the discussion documents and also to provide information and views from the sector, which have been incorporated into the submissions by ANGOA.

The issues which were most frequently raised were:

1. The threat of increased compliance costs;
2. The need for buy-in across government departments and other funders;
3. The need for the sector to be engaged as reporting formats and standards are developed.

From the workshops and based on ANGOA's experience within the community sector it is important to keep in mind, when developing financial reporting standards and formats, that financial reporting and non financial reporting is something that nearly every functioning community organisation already does. The chair or president as well as the CEO manager or coordinator will provide an annual report to members including a financial report. The problem is not the lack of reporting but the lack of quality standards and consistent formats and the reliability of the information provided. The Review of the Financial Reporting Act Review is therefore an opportunity to add value to an activity that community organisations already undertake.

ANGOA's Response to Discussion Document Questions

Responses to Questions from the Ministry of Economic Development

Q3: What comments do you have on the Primary Principle and the Indicators of financial reporting? Should any other principles and/or indicators be considered?

In the case of community organisations¹ we agree that the primary reason for financial reporting is to provide access to "external users" who need the information "but are unable to demand them". However we would regard external users as virtually the whole

¹ We use the terms community organisations and community sector to refer to all tangata whenua, community and voluntary sector organisations. Of the many terms used for the sector this in our view best reflects the situation in New Zealand. We would avoid in particular the use of the term "charity" as only about 20% of organisations in the community sector are in fact charities.

of the public as anyone may wish to donate time or money, receive services or otherwise participate in the activities of community organisations.

Most importantly, we would note in respect of community organisations that financial reports are of very little value unless the external user also has access to information regarding the organisation's mission or purpose and the activities it undertakes to meet this purpose. It is only in this context that external users can judge whether or not the organisation has applied its financial resources towards the costs of those activities which will advance the mission or purpose of the community organisation. This is a distinguishing feature of the community sector relative to the public and private sectors.

The single most significant indicator that a community organisation should have financial reporting obligations is therefore "public accountability".

For the vast majority of community organisations "economic significance" as defined in the discussion documents does not apply to community organisations.

The Separation Indicator is a concept that has received very little attention within the community sector and further discussion is required regarding the application of this indicator to the sector. We do not find the attempt to apply the principal-agent concept useful in the context of the complex relationships that exist within the community sector and its multiple stakeholders.

Q15: *What comments do you have on the proposal to use annual operating expenditure as the means for determining whether a private non-profit entity is small, medium or large?*

ANGOA supports the use of annual operating expenditure as the basis for determining the size of community organisations. Further work is required to define the meaning of operating expenditure having particular regard to the inclusion or not of volunteer time and other non-cash contributions, and also in the area of for-profit enterprises owned by non-profit entities.

It appears that operating expenditure combined with non financial reporting (service or activity reporting) provides the best means of determining that an organisation is meeting its mission or purpose for which is to be held accountability by stakeholders.

Q 16: What comments do you have on the proposals to use annual operating expenditure of \$20,000 and \$20 million as the cut off points between small and medium, and medium and large respectively? If you consider that other criteria should be used, what are those criteria and what cut-off points should be used?

We recognize that these cut off points are nominal and that there is no absolute best solution. From the workshops the one suggestion that may have merit is the use of the GST threshold of \$60,000 at the lower end. The difference between having the level at \$60,000 and \$20,000 is not great in terms of the number of organisations which would be exempt from reporting requirements. (See Charities Commission figures)

Q17: What comments do you have on the proposal that financial reporting obligations outlined in Part 7 would not apply to gaming machine societies?

ANGOA strongly disagrees with exempting Gaming Machine trusts from the reporting requirements as set out in Part 7. These organisations, as a group, are the worst performing in terms of meeting their authorised purposes and fully disclosing information regarding their financial performance. From August to November 2009 alone, there were reports of The Department of Internal Affairs investigating gaming trusts in Hawkes Bay, having to direct 33 Trusts to ensure “their objects on their trust deeds were consistent with the authorised purposes”, suspension of the operations of the Eureka Trust and further suspensions of 3 trusts in respect of their funding of Harness Racing. We have also been advised of a Gaming Machine Trust that pays its trustees \$160,000 each per annum. This is totally unacceptable and ought to be made public but such information is not currently available to the public.

While gaming machine trusts may provide information to the Department of Internal Affairs this does not in our view constitute public disclosure nor adequate accountability to those “external users” who need the information “but are unable to demand them”.

Q18: What are your views on the preparation, distribution, publication and assurance proposals appearing in Part 7.6 and the Appendix insofar as it relates to private non-profit entities?

We generally agree with the proposals as set out in Part 7.6. There is need to further develop what is meant by “Publish”. For most organisations publishing would involve providing an annual report, including a financial report, at an annual general meeting. It could also mean ensuring that any member of the public is able to access these reports on request. Supplying reports to a government department would not however be sufficient to ensure that those who need to know but who are unable to demand the information will in fact have access to the information they require. This would only be the case where the government agency concerned is required to “publish” the information as for example on the Charities Commission web site.

Accounting Standards Review Board Questions

Q2: Do you agree with the Board’s view that the time has probably come for New Zealand to consider embracing sector-specific (rather than sector-neutral) accounting standards? If not, why not?

ANGOA agrees with this view and totally opposes so called sector-neutral standards.

Q3: Do you agree that: (a) using reporting tiers is a cost-effective way to recognise the cost-benefit principle; and (b) the criteria for tiers should be established on a sector-specific basis? If not, what alternative approaches do you suggest and why?

ANGOA supports the development of (a) reporting tiers and (b) sector specific criteria.

Q8: Do you agree that entity size (based on expenditure but not asset value) should be used to allocate entities to the non-profit sector tiers? If not, what alternative would you suggest and why?

ANGOA supports allocating entities to tiers based on size of the organisation’s annual expenditure.

Q9: *Do you agree that for the not-for-profit sector Tier 1 should comprise entities with expenditure \geq \$10 million. If not, what alternatives would you suggest and why?*

ANGOA agrees that Tier 1 should comprise entities with annual expenditure of \$10 million or more as being appropriate subject to review in 3- 5 years to determine the appropriateness of this criteria level.

Q10: *Do you agree that Tier 3 should comprise entities with expenditure under \$1 million? If not, what alternative would you suggest and why?*

ANGOA agrees with this proposal again subject to an appropriate review period.

Q11: *Do you agree that: (a) a set of NZ PBE Accounting Standards should be developed for use by PBEs; and (c) a NFP Application (building on International Public Sector Accounting Standards) be used as the basis of reporting in the not-for-profit sector. If not, what alternative would you suggest and why?*

We generally agree with this approach. Our concerns relate to the complexity of the IPSAS and potential increased compliance costs. These compliance costs could arise due to both the time and resources required to meet the standards and the costs of employing sufficiently qualified staff, external accountants and auditors to achieve the desired levels of assurance. These are issues that the ASRB needs to work through with the NFP sector as the standards are being developed.

A further issue relates to the fundamental objective of developing standards and that it provide reports, particularly financial reports, that are comprehensible to governance volunteers and the generally public and not just to accountants.

Q12: *Do you agree that (a) the full PBE standards should apply to Tier 1; and (b) a differential version of the PBE standards should apply to Tier 2 in the PBE sectors? If not, what alternative would you suggest and why?*

We agree with this proposal subject to the reservations referred to at Q.11

Q13: *Do you agree that 'Simple Format Reporting' should apply to Tier 3 entities in the PBE sectors? If not, what alternative would you suggest and why?*

We agree

Q14: *Do you agree that PBEs that are issuers should continue to fall within the PBE sector requirements provided that they should never fall below Tier 2? If not, what alternative would you suggest and why?*

Agreed

Conclusion:

We would stress that in the NFP sector non financial reporting, setting out the activities the organisation undertook to advance its mission or purpose, is the most important accountability. Financial reporting must be placed in a context that enables stakeholders to understand how the resources of the organisation were utilised by means of its activities or services, to advance its mission or purpose. ANGOA would urge that adequate resources are made available to ensure that non financial reporting standards and formats are developed alongside financial reporting standards and formats and that the community sector is actively involved in all stages of development.

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