



TRUST WAIKATO
TE PUNA O WAIKATO

14 December 2011

Chief Executive
External Reporting Board (XRB)
P O Box 11 250
WELLINGTON 6142

Dear Sir or Madam,

Submission on 'Accounting Standards Framework for General Purpose Financial Reporting by Public Benefit Entities'

Trust Waikato wishes to make a submission on the September 2011 consultation paper *Accounting Standards Framework for General Purpose Financial Reporting by Public Benefit Entities*. This submission was approved following the Trust's 12 December 2011 meeting and has been duly authorised by the Chair and Chief Executive on behalf of Trust Waikato.

1 Trust Waikato (the Waikato Community Trust)

Trust Waikato was established by government statute in 1988 to hold the shares of Trust Bank Waikato. These shares were sold in 1996 and the Trust now holds a range of international and domestic investments. Each year the Trust distributes a percentage of its profits generated from the global investment portfolio.

Trust Waikato's purpose is to help organisations carry out charitable, cultural, philanthropic and recreational projects of benefit to people in the Greater Waikato. Our funding area includes the districts of Thames/Coromandel, Hauraki, Matamata Piako, Waipa, Waikato, South Waikato, Waitomo, Otorohanga, Ruapehu and Hamilton city.

Our vision is for resilient and vibrant communities and, since 1989, the Trust has donated over \$120million dollars to the greater Waikato community.

Our strategic areas of focus support our aims of investing wisely and donating effectively.

We focus on projects, programmes and organisations which contribute to the well-being of communities. We've traditionally had funding priorities around increasing participation in community activities; youth development; preserving our history and cultural identity and encouraging groups to work together and to share facilities for community benefit. We also have a particular focus on working with Maori, Pacific peoples and ethnic communities and their supporters.

Trust Waikato is a member of the Combined Community Trusts of New Zealand and Philanthropy New Zealand (PNZ). Under the Community Trusts Act (1999 – refer to s13), the Trust must comply with certain aspects of the Financial Reporting Act (1993).

The Trust has chosen to prepare a submission on the Accounting Standards Framework as a member of the philanthropy sector, a funder, an advocate for community organisations and as a follow-up to our December 2009 submissions¹ on ‘The Statutory Framework for Financial Reporting’ and ‘Proposed Application of Accounting and Assurance Standards’.

On 9 November, Trust Waikato was represented by three trustees and a staff member at the XRB seminar, in Hamilton, on the Accounting Standards Framework. Our representatives reported that the seminar was well attended, and found the presentations clear and informative.

2 Specific comments on the consultation paper/questions for respondents

Trust Waikato agrees that public sector PBEs should be defined by reference to the definition of public entities in the Public Audit Act 2001, and that not-for-profit PBEs should be defined as all PBEs other than public sector PBEs (*Questions 1 and 2*).

The development of **one** set of practical, workable reporting standards which meet the needs of a range of organisations (Inland Revenue (IR), Charities Commission/DIA, funders) and which do not place unnecessarily excessive compliance costs on to community groups is critical to success.

The reporting standards must also be meaningful to users, for example; funding organisations, government agencies (for service contracts) and the general public (who may be making decisions about supporting a particular group). Trust Waikato maintains that there ought to be agreement across funders, charity commission, government departments etc. to use the new standards.

Perhaps key groups could be involved in the informal development of the simplified reporting framework, as suggested by ANGOA, to ensure that the needs of all users are met. Trust Waikato is interested in being part of any local pilot.

Trust Waikato December 2009 submission on the framework

Trust Waikato requests that as many end-users as possible collaborate on what is needed, and work alongside organisations or their nominated representatives (for example ANGOA) to ensure that the standards are as co-ordinated and as simple as possible, rather than have factions develop their own, competing or repetitious, systems of reporting (*Question 3*).

The Trust has no position on PBE debt issuers (*Question 4*).

Trust Waikato supports the concept of a tiered system. With XRB Board’s decision to adopt a multi-standards approach as a given, Trust Waikato agrees that a suite of NZ PBE standards that use IPSAS as its base, but which are modified for any recognition, measurement or disclosure matters considered inappropriate in the New Zealand context be adopted at this juncture (*Question 5*). The standards will need to be relevant, applicable and understandable in the Tangata Whenua, Community and Voluntary (TWCV) sector.

Questions 6 and 7 refer to this simplified representation of the proposed three tiers, overleaf:

¹ A copy is available on request.

| Tier | Entities | Standard | Detail |
|---|--|------------------------|---|
| 1 | Expenses >\$30m | Full PBE Standards | |
| 2 | Expenses \$2m-\$30m | RDR PBE Standards | Reduced Disclosure Regime Requires Statement of Cash Flows |
| 3 Public Sector | Expenses <\$2m | Simple Format Standard | User friendly Template reporting Minimum disclosures |
| 3 Not for profit/ Tangata Whenua, Community and Voluntary sector | Expenses <\$2m • \$40k-\$2m • <\$40k | Simple Format Standard | • Accrual basis • Cash basis |

Trust Waikato generally agree that the same recognition and measurement requirements should apply to all tiers.

However there are too many disclosures (of recognition and measurement) requirements proposed for Tier 3. The Trust agrees with the XRB's proposal that a Reduced Disclosure Requirements version of the full NZ PBE Accounting Standards would apply to Tier 2 entities, and a simple reporting approach would apply to Tier 3 entities, with some concessions on recognition and measurement to reflect the simple nature of their requirements.

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Other issues requested in Question 8 include comment on:

i) Thresholds

With regard to the threshold levels suggested for the three tiers, the level for Tier 3 seems to have been arbitrarily chosen (\$20,000 income initially proposed in 2009, now \$40,000 expenditure). Trust Waikato suggests tying the threshold to something which enables a regular review to be undertaken, or at least a mechanism for change, as the needs of the sector change. For example, is there a relationship between statistics on income or expenditure collected by Statistics New Zealand or the Charities Commission which could be utilised? A situation in which the tier thresholds are way too low because of years of inflation should not be allowed to occur.

ii) Availability of Information

While not specifically covered in this latest round of consultation, any requirement to make the information publicly available must be considered in terms of cost. For example, If the organisation does not have a website and has no funds for newspaper advertising, then having a report available to members and to any member of the public requesting one should be enough.

iii) Genuine feedback to be sought

Sufficient time must be allowed for exposure drafts (due to be released in March/April 2012) to be considered by community groups and for them to provide meaningful and well-informed feedback, both directly and collectively through representative organisations.

iv) Relationship to audit and assurance requirements

It appears unlikely that there will be a separate set of auditing standards for PBE entities to mirror the development of the separate PBE accounting standards. NZAuASB seem to be saying that there will be a single suite of auditing standards applicable to all sectors.

The issue then arises that, under the auditing standards, auditors have to take the same approach for a large corporate as a small not-for-profit (NFP), so the audit cost is very high for NFPs. From the point of view of the audit profession, the risk is too high to do anything less, if an audit is specified.

There was considerable discussion at the XRB seminar on the cost burden of audits and reviews on small organisations. As was pointed out, many of these smaller organisations lack understanding about the difference and have not made moves to amend their own constitutions to change the audit requirement to a review or something else more affordable and appropriate for the size of the organisation. A new international Review Standard (ISRE) is due out soon.

Given that it is unlikely that there will be any multi-standard audit approach for the PBE sector, there was acknowledgement that NZICA and NZAuASB need to educate the PBE sector and funders about the necessity or not of full audit, review or narrow assurance of “funding spent”.

Trust Waikato would support/encourage a substantial education package to be implemented on this issue for the Not-for-profit/Tangata Whenua, Community and Voluntary sector. We ask that these comments be passed on to the NZAuASB.

v) Implementation and other issues

As Trust Waikato has emphasised (again) the inclusive nature of the development process for the standards, and an extension of time for considering concepts and drafts, we suggest that the compulsory adoption of the NZ PBE Accounting Standards be required to occur a minimum of two years after agreement has been reached on the final format of such standards, with optional early adoption possible (*Questions 9 and 10*).

Finally, we were concerned to hear that NZICA and IR were already working on separate paths to determine reporting standards for those organisation not caught by the new Government framework, as this has the potential to cause confusion and to create multiple reporting requirements for not-for-profit organisations.

We recognise that XRB is responsible only for the reporting standards applicable to PBEs specified within the new Government framework, but we urge XRB to get agreement on these from Inland Revenue, Charities Commission and any other statutory body which requires formal reporting, to encourage these organisations to adopt the standards for their own reporting purposes. This would reduce compliance costs, and simplify expectations of the not-for-profit sector – a sector which is largely voluntary.

3 Concluding remarks

Thank you for the opportunity to make these comments.

Trust Waikato has no objection to the release of any information contained in this submission and agrees to its publication on the External Reporting Board’s website (and other websites as appropriate).

Yours sincerely

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Chair

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