



## Modernising the Charities Act 2005

### We want your views on reporting requirements for small charities

Tēnā koe. This document seeks input from targeted stakeholders on initial options for reporting requirements for small charities. Your views will help us to refine the options and understand what they might mean for you or the charities you represent.

#### Background

##### *All charities are required to submit an annual return with financial statements or a performance report*

All charities registered under the Charities Act 2005 must report annually to Charities Services. Charities must submit an annual return and, depending on the tier, a copy of their financial statements or a performance report. These financial statements or performance reports must meet the standards set by the External Reporting Board (XRB). The standards are about ensuring transparency and consistent financial reporting.

##### *Problem: many small charities find it difficult to meet current reporting requirements*

While reporting helps show whether charities are spending money appropriately, the current reporting obligations (as expressed) may be disproportionate to the level of transparency and accountability needed from small charities.

The percentage of tier 4 charities using the XRB standard and the percentage meeting the standard have decreased over the past few years. In 2019/20, 59 per cent of tier 4 charities used the XRB standard while 41 per cent met the standard. More than two-thirds of those who submitted on reporting requirements in the 2019 discussion document favoured reducing requirements for small charities, although nearly one third saw current requirements as appropriate.

#### Question:

1. Do you agree that the current reporting obligations (as expressed) are disproportionate to the level of transparency and accountability needed from small charities? Why or why not?

#### Initial policy options

##### *We would like to hear your views on a range of options that could address the problem*

We have developed a range of potential options that could address the problem. They are:

- Option 1:** Maintain current reporting requirements established by the XRB (no change);
- Option 2:** Simplify expression of current reporting requirements set by the XRB through templates and guidance;
- Option 3:** Improve compliance by providing extra support and education through Charities Services to better support small charities to meet current reporting requirements;
- Option 4:** Exemption from current financial reporting requirements established by the XRB for a subset of tier 4 charities;
- Option 5:** Modify current standard-setting or guidance setting process for reporting to involve diverse views from interested parties at decision-making stages of the process.

In 2019, submitters on the discussion document commented on the current state, which reflects **Option 1: Maintain current reporting requirements established by the XRB (no change)**. Below we describe **Options 2 to 5** and propose some questions for you.

### **Option 2: Simplify expression of current reporting requirements set by the XRB through templates and guidance**

This option would include fewer pages for the templates and guidance developed by the XRB and Charities Services; simple terms and plain English compared to accounting terms and references (where possible); and an easily accessible format and platform such as a short document easily available on the website.

This option maintains the current level of reporting requirements. Having simple templates and guidance will enable small charities to continue to comply and meet the current reporting standard but simplifying technical accounting terms may be difficult to achieve.

#### **Questions:**

2. What information for the current reporting requirements is easy to understand and follow?
3. How should the information required by the XRB standard and by Charities Services be presented and formatted?
4. What are some of the ways that would be useful and easy for you to complete and meet current reporting requirements?

### **Option 3: Improve compliance by providing extra support and education**

For this option, Charities Services would provide extra support and education to small charities so that they can meet the current XRB reporting standards. This could involve launching a website to bring everything together in one place; awareness campaigns to educate and demonstrate the process of meeting current reporting requirements; or developing new tools and information packs for small charities by understanding what works best for all interested parties.

Maintaining the current level of reporting requirements and providing extra support may make reporting less onerous for small charities. This option aims to enhance the capability of charities to meet the current level of reporting requirements. However, ongoing compliance may be difficult to achieve if a small charity has new volunteers completing the reporting requirements each year. In addition, this option may not address the problem that the reporting requirements for small charities are disproportionate.

#### **Questions:**

5. What resources and extra support would you require to prepare and meet current reporting requirements?
6. What form of education and support has worked best for you in the past, e.g. roadshows or awareness campaigns?
7. Does education and support help address the issue of reporting requirements for you? Is it a long-term solution for ongoing compliance?

### **Option 4: Exemption from current financial reporting requirements established by the XRB for a subset of tier 4 charities**

This option considers an exemption from meeting the XRB's reporting standard for small (a subset of tier 4) charities. A small charity could be defined as a charity with total operating expenditure under \$10,000 and total assets under \$30,000. Small charities would still file an annual return with financial statements.

An exemption from the current reporting standard for a subset of tier 4 charities means key information is still reported through their annual return but a level of transparency and accountability may be lost. This option is

based on a similar proposed exemption in the Incorporated Societies Bill for small incorporated societies that do not have donee status and that are not registered charities.

#### Questions:

8. How important is being a donee organisation (having donee status) to you?
9. What would you identify as important information for sufficient transparency and accountability for small charities?
10. Financial statements are required with the annual return, so what do you think the minimum requirements should be for financial statements (without the XRB's reporting standard)? What would these requirements look like?
11. Do you agree with a threshold of total operating expenditure under \$10,000 and total assets under \$30,000 for an exemption from the current reporting standard for small charities? Why or why not?

#### Option 5: Modify current standard-setting or guidance setting processes for reporting to involve diverse views from interested parties

This option would establish an advisory committee that could participate and advise on reviews of the standard developed by the XRB; or the template developed by the XRB; or the guidance material that Charities Services provides. The composition of the committee could include 7-14 members that represent diverse perspectives e.g. members could represent perspectives of smaller charities including charities with kaupapa Māori, funders, academics, accountants, regulators and preparers of financial statements.

This option incorporates perspectives of small charities including small kaupapa Māori charities to feed into the development of reporting requirements. This could help achieve reporting standards or guidance material that caters for everyone. Charities Services already has a level of engagement with members within the sector to get wider perspectives on the resources they develop. Care would be needed that the committee does not duplicate these processes.

#### Questions:

12. Will this option address the problem that reporting requirements are disproportionate for small charities?
13. Who should be included in an advisory committee for a standard-setting or guidance setting process for reporting?
14. How can the advisory committee ensure it incorporates diverse views including Te Ao Māori in their advice?

## Providing feedback

We are very keen to hear your views. Please email [charitiesact@dia.govt.nz](mailto:charitiesact@dia.govt.nz) with answers to the questions by **Monday 24 May**. It would be helpful if you could reference the question number in your response. You can answer as many or as few questions as you like. Unfortunately, we will not be able to consider responses received after Monday 24 May. Please note that all responses become public information that can be requested under the Official Information Act 1982. Indicate clearly if any information you provide is confidential or should not be disclosed.

We will use your feedback to help us develop policy proposals on modernising the Charities Act. Final proposals will be presented to the Minister for the Community and Voluntary Sector, who may present proposals to Cabinet for approval. If proposals are approved by Cabinet and require legislative amendment, there will be an opportunity for public consultation through the Select Committee process.

We look forward to hearing from you. For more information on this work, see [www.dia.govt.nz/charitiesact](http://www.dia.govt.nz/charitiesact).