

Fact sheet: Reporting requirements for charities

New reporting requirements for registered charities came into force from 1 April 2015.

What does that mean for us?

Registered charities need to comply with the new standards now. These require quite a bit more non-financial information than in the past.

What happens if we don't comply?

Individuals who have governing responsibility for registered charities may be subject to penalties of up to \$50,000 if they don't comply with the reporting requirements.

But our accountant does this for us — don't you?

While we're geared up to continue to prepare your financial returns, from the 2016 financial year onwards, we'll need more information from you. We don't want to pass the costs of preparing this additional non-financial information on to you, particularly where the organisation is smaller and the costs will make a big dent. Also, as you're the ones who best know what you do and why, you're in a better position than we are to provide clear, accurate information.

What kind of information is required?

The requirements apply according to which tier the organisation falls into and this is determined by the size of the organisation, its operating revenue and whether it has public accountability. There are four tiers:

Tier	Annual operating budget		Accountability	Reporting requirement
1	Over \$30m	OR	Has public accountability	Full standards
2	Under \$30m	AND	Has no public accountability	Reduced disclosure regime
3	Under \$2m	AND	Has no public accountability; uses accrual based accounting	Simple format report — accrual
4	Under \$125k	AND	Has no public accountability; uses cash based accounting	Simple format report — cash

Organisations in Tiers 1 and 2 are mostly big enough to have in-house reporting expertise. They are well-equipped to meet their new reporting requirements, whether that involves compliance with the full standards or the reduced disclosure regime.

We are more concerned with organisations in Tiers 3 and 4 — they tend not to have professional in-house resources and are often largely staffed by volunteers. Typically, office bearers may only be in contact with each other at monthly or quarterly meetings so it may take time to get things done, pull together the required records and draft what they need to meet their reporting requirements.

Is an audit required?

In the past many charities had their financial statements audited voluntarily. There are now legal obligations for an audit.

All organisations in Tiers 1 and 2 are obliged to have an audit done by a 'qualified auditor'.

Organisations in Tier 3 have obligations that depend on their size:

Size	Level of Expenditure	Assurance requirement
Large	Over \$1m	Full audit by a qualified auditor
Medium	Over \$500,000	Either an audit or a review engagement by a qualified auditor
Small	Under \$500,000	No legal requirement, but may make voluntary arrangements.

Tier 4 charities have no requirement for independent assurance of their financial statements. Again, they may voluntarily arrange for an audit or review, which does not have to be done by a qualified auditor.

Which tier are we in?

We can advise you what tier your organisation falls into and whether it is considered a large/medium/small organisation for audit purposes.

What do we have to do now?

Your organisation needs to complete a Performance Report and submit it to Charities Services as part of your annual return. Charities Services point out that the report will be useful to you in other ways. It will:

- give you accountability to members when you present it at the annual general meeting
- give confidence to prospective funding bodies, when you present it with your funding applications

In short, they expect it will be a kind of baseline standard going forward.

So, in the short term, you need to prepare the Performance Report for this financial year. In the longer term, you need to make sure that your organisation's record-keeping systems are set up to gather information needed to complete the Performance Reports so office bearers can put them together easily in future.

Depending on your size, you may need to arrange for an audit or a review engagement, or confirm that your existing auditor is 'qualified'.

How will we complete the Performance Report?

We can send you the template for the performance report and guidance notes (or you can download them from the Charities Services [website](#)). When you look through those, you will see that a lot of it is material we prepare for you annually. We can go through it with you so you know what is required and what kind of records you need to keep in future.

Although the performance report template and guidance notes look a bit daunting, they set out what kind of information is wanted for each section. The Charities Services [website](#) also has helpful videos setting out what organisations in each tier need to do.

Our recommendation

You need to make a start on the Performance Report for your organisation's annual return. To start you off, please see the attached overview of key features of the performance report and the service performance checklist.

If you have queries or want us to walk you through what you need to prepare and what we will prepare for you please do not hesitate to contact us.

New requirements for charities — the performance report

When you come to prepare the performance report for your organisation, you will see the new requirements for both Tier 3 and 4 organisations boil down to:

- Who are we?
- Why do we exist?

- What did we do during the year?
- What did it cost?
- How was it funded?
- When did we do it?
- How did we do our accounting?
- What do we need to do to continue?

What's new?

There are some new features. For instance Tier 3 organisations now have to provide a statement of cash flows. And there are new terms which you need to understand to be able to meet the requirements, such as service performance, outcomes and outputs, and related party transactions.

Service performance

All charities will have to report on 'service performance'. This is a report on what the organisation did to achieve its core objectives.

'Outcomes' and 'outputs'

The reporting requirements distinguish between 'outcomes' and 'outputs':

'outcomes'	the benefit you want to provide to the community, say 'Improve the quality of life of those living with XYZ disease'.
'outputs'	is the specific service (or goods) delivered, e.g. 'Provide cheap/free accommodation near base hospitals for rural patients' or 'Train puppies to become guide dogs'

Some charities only provide a few activities or services, which will make it easy for them to identify all the different parts to include in their reporting. For others it might not be as straightforward, as they may have many activities or services which operate independently of each other. All these different parts of the charity must be reported on, as they all enjoy the benefits of being a registered charity.

Income from members and non-members

In your reports, you need to separate out income received from members and record that separately to income received from non-members.

Related party transactions

Charities now also need to report on related party transactions. These are very common with charitable organisations — it's where people involved in a charitable organisation use their personal networks to get things done. Commonly, related party transactions will involve the organisation's decision makers and their close family members, friends or business associates. For instance, the tennis club wants to get a new computer. They purchase one at wholesale price of \$990 from a committee member's electronics store and sell their old one to the Secretary's spouse for \$200. These transactions now need to be reported.

Service Performance checklist

		✓	<i>Initial</i>
1.	Identify your organisation's outcomes — the benefit/s you want to provide to the community, e.g. 'improve the quality of life of those living with XYZ disease'. The mission statement could be helpful here.	<input type="checkbox"/>	
2.	List your major outputs — the specific service (or goods) delivered, e.g. 'provide cheap/free accommodation near	<input type="checkbox"/>	

	base hospitals for rural patients' or 'train puppies to become guide dogs'.		
3.	Establish a system for measuring delivery of outputs. You will want to report quantities delivered, e.g. number of patients accommodated and/or number of nights, and optionally: Costs associated with the outputs <input type="checkbox"/> Contributions such as estimated volunteer hours, in terms of hours or full-time staff equivalents <input type="checkbox"/> Quality <input type="checkbox"/> Timeliness <input type="checkbox"/>	<input type="checkbox"/>	
4.	Prepare a budget for the delivery of outputs	<input type="checkbox"/>	
5.	Establish, if practical, the quantities delivered in the previous year	<input type="checkbox"/>	
6.	Do we have any related party transactions we need to report on?	<input type="checkbox"/>	
7.	Have we received income from non-members as well as members?	<input type="checkbox"/>	

Think about the format for presentation. Sometimes graphs or a pictorial representation of the organisation's achievements during the financial year presents the story more clearly than words or numbers only.

Last reviewed on 16 June 2016

Important: Clients should not act solely on the basis of the material contained in this article. Items herein are general comments only and do not constitute nor convey advice per se. Changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of the areas. This article is issued as a helpful guide to our clients and for their private information. Therefore it should be regarded as confidential and should not be made available to any person without our prior approval.