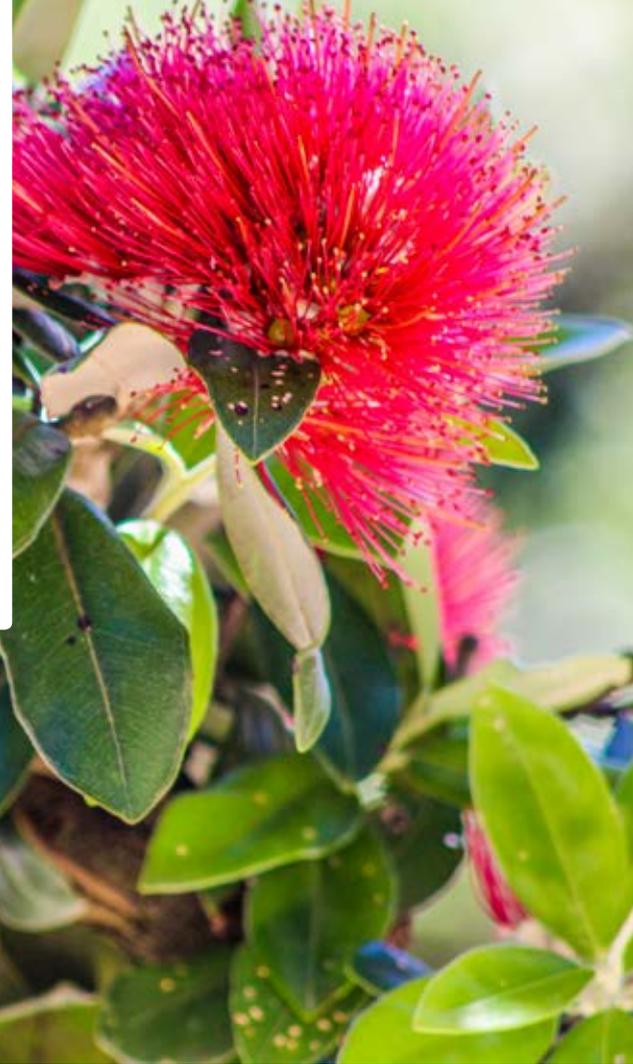




# The New Zealand financial reporting landscape

A summary of the legislative and accounting standards requirements for New Zealand entities

May 2016



An overhaul of New Zealand's financial reporting legislation was completed in 2013 with the issue of the Financial Reporting Act 2013 and amendments to a number of other pieces of legislation. This represented a significant change to the financial reporting landscape for many entities. Along with legislative changes as to 'who' has to provide financial statements, the External Reporting Board (XRB) also changed 'what' the financial reporting requirements are, creating new challenges for preparers of financial statements.

We previously reported on these significant developments, but our previous publications are now out of date due to:

- the removal of transitional provisions and other amendments to the accounting standards made by the XRB, in particular to XRB A1 *Application of the Accounting Standards Framework*, and XRB A2 *Meaning of Specified Statutory Size Thresholds*;
- notices issued by the Financial Markets Authority (FMA) and Registrar of Companies (Registrar) exempting certain classes of entities from some legislative requirements;
- finalisation of the audit requirements for registered charities; and
- the issue of an exposure draft including proposed financial reporting requirements for incorporated societies.

This publication therefore updates our previous publications, providing a high-level overview of the following:

- Legislative requirements – who has to prepare, have audited and/or file financial statements?
- Accounting requirements – what standards apply if financial statements are required in accordance with NZ GAAP?
- What needs to be considered when financial statements are not required in accordance with NZ GAAP?

It is important to assess first whether the entity has any legislative requirements to prepare financial statements before determining which accounting requirements apply. This publication has therefore been structured to reflect the order in which an entity should consider the requirements.

# Legislative requirements – who has to prepare, have audited and/or file financial statements?

The following tables outline the legislative financial reporting requirements by entity type, focusing on which entities have to prepare financial statements, whether an audit is required and whether the financial statements have to be filed. These are a high level overview only and reference should be made to the relevant Act for a particular entity. The full Acts are available on the [www.legislation.govt.nz](http://www.legislation.govt.nz) website.

## Issuers and other market participants

Entity type	Preparation	Audit	Filing
<b>Entity captured by the Financial Markets Conduct Act 2013 (FMCA) – referred to as an FMC reporting entity</b> Refer below for discussion.	✓	✓ (performed by a licensed auditor or registered audit firm)	✓ Within four months of balance date <sup>1</sup>

### FMC reporting entities

The definition of 'FMC reporting entity' is included in section 451 of the FMCA. In summary, the definition:

- Includes issuers of financial products, recipients of money from conduit issuers, registered banks, licensed insurers, building societies, credit unions and certain entities licensed by the Financial Markets Authority (FMA); and
- Excludes retirement village operators, financial adviser businesses, licensed independent trustees, brokers, Qualifying Financial Entities ('QFEs') and certain closely-held equity issuers.

### Overseas issuers

Overseas issuers may want to seek an exemption from the requirements to prepare audited financial statements in accordance with NZ GAAP, particularly where they are subject to financial reporting requirements in their local jurisdiction. The FMA is responsible for exemptions from the financial reporting requirements for overseas issuers, and a number of exemptions have already been provided, both to individual overseas issuers as well as to some classes of overseas issuer. For example:

- Financial Markets Conduct (Dual-listed FMC Reporting Entities) Exemption Notice 2015
- Financial Markets Conduct (Overseas Registered Banks and Licensed Insurers) Exemption Notice 2015

Exemption notices are available on the following website: [www.legislation.govt.nz](http://www.legislation.govt.nz).

For more information on the FMA's approach to exemptions, refer here:

<http://fma.govt.nz/compliance/exemptions/exemption-categories/financial-reporting-exemption-information/>.

## Public entities that are companies and limited partnerships

Public entities are those public sector entities captured by section 5 of the Public Audit Act 2001.

Entity type	Preparation	Audit	Filing
<b>Companies that are public entities (regardless of size)</b>	✓ Within five months of balance date	✓	May be required under other legislation
<b>Limited Partnerships that are public entities (regardless of size)</b>	✓ Within five months of balance date	✓	✗ Must be distributed to each partner within five months of balance date

Note – sector or entity specific legislation may specify preparation, audit and filing requirements for other public entities not captured here.

<sup>1</sup> For listed entities subject to the NZX Main Board and Debt Market Listing Rules and NXT Listing Rules, financial statements must be prepared within three months of balance date.

## Companies and partnerships

(that are not FMC reporting entities or public entities)

Entity type	Preparation	Audit*	Filing
<b>Large<sup>2</sup> company with less than 25% overseas ownership</b> (Large is more than \$60m assets or \$30m revenue)	✓ Within five months of balance date	✓ (can opt out)	✗
<b>Large<sup>2</sup> company with more than 25% overseas ownership, but not a subsidiary of an overseas company</b> (Large is more than \$60m assets or \$30m revenue)	✓ Within five months of balance date	✓	✓ Within five months of balance date
<b>Large<sup>2</sup> company that is a subsidiary of an overseas company</b> (Large is more than \$20m assets or \$10m revenue)	✓ Within five months of balance date	✓	✓ Within five months of balance date
<b>Large<sup>2</sup> overseas company that is carrying on business in New Zealand (NZ)</b> (Large is more than \$20m assets or \$10m revenue)	✓ Within five months of balance date  (including the NZ branch/ group business if it is large as well as the overseas company/ group)	✓	✓ Within five months of balance date
<b>Every other company with 10 or more shareholders</b>	✓ Within five months of balance date  (can opt out)	✓  (can opt out)	✗
<b>Every other company with fewer than 10 shareholders</b>	✗  (can opt in)	✗  (can opt in)	✗
<b>Large<sup>2</sup> Limited Partnerships</b> (Large is more than \$60m assets or \$30m revenue)	✓ Within five months of balance date	✓ (can opt out)	✗ Must be distributed to each partner within five months of balance date
<b>Other Limited Partnerships (i.e. not large)</b>	✗  (can opt in)	✗  (can opt in)	✗
<b>Large<sup>2</sup> Partnerships under the Partnerships Act 1908</b> (Large is more than \$60m assets or \$30m revenue)	✓ Within five months of balance date	✓ (can opt out)	✗
<b>Other Partnerships under the Partnerships Act 1908 (i.e. not large)</b>	✗	✗	✗

<sup>2</sup> For an entity and its subsidiaries (if any), large is at least one of assets greater than \$60m, or revenue greater than \$30m, both in respect of the two preceding accounting periods, unless the entity (and group) is an overseas company carrying on business in New Zealand, or a subsidiary of an overseas company. In that case large is at least one of total assets greater than \$20m, or total revenue greater than \$10m both in respect of the two preceding accounting periods.

\* Must be performed by a qualified auditor. Refer to the Appendix in this publication for more information.

## What is large?

An entity is large in respect of an accounting period if at least one of the following paragraphs applies:

- As at the balance date of each of the two preceding periods, the total assets of the entity and its subsidiaries (if any) exceed \$60 million, or
- In each of the two preceding periods, the total revenue of the entity and its subsidiaries (if any) exceeds \$30 million.

However, an overseas company carrying on business in New Zealand (i.e. has a branch) and subsidiaries of overseas businesses are large if revenue (for the entity and its subsidiaries, if any) is more than \$10 million or total assets are more than \$20 million.

An entity is not large if it was an inactive entity in respect of the period. An entity is an inactive entity in respect of an accounting period if:

- during that period, the entity has not derived, or been deemed to derive any income, and has no expenses, and has not disposed of, or been deemed to have disposed of, any assets, and
- at the end of that period, the entity has no subsidiaries or all of its subsidiaries are inactive entities in respect of that period.

In making this determination, no account may be taken of:

- a) any statutory company filing fees or associated accounting or other costs, or
- b) bank charges or other minimal administration costs totalling not more than \$50 in the period, or
- c) interest earned on any bank account to the extent that the total interest does not exceed the total of any charges or costs incurred in (b).

Refer to the Appendix of this publication for more information on how to calculate 'total assets' and 'total revenue'.

## Overseas companies carrying on business in New Zealand (i.e. New Zealand branches)

If an overseas company carrying on business in New Zealand is large, it must file audited financial statements for the:

- Overseas company, or group (if the overseas company has a subsidiary or subsidiaries) and the group's New Zealand business, and
- New Zealand branch, if the branch is also large.

Overseas companies (groups) and New Zealand branches (and group's New Zealand business) are large if revenue is more than \$10 million or total assets are more than \$20 million. There is no allowance for 'opting in' or 'opting out' of the Companies Act 1993 requirements for branches (see the following section for more on the opting in/out requirements).

Financial statements for the overseas company (or group) and the branch must be prepared in accordance with NZ GAAP and audited in accordance with New Zealand auditing standards. However, the Registrar of Companies (the 'Registrar') can give exemptions from compliance with the requirements under the Act (for non-issuers/FMC reporting entities). In particular, where the Registrar is satisfied that the financial statements of the overseas company comply with the law in force in the foreign jurisdiction and those requirements are substantially the same as in New Zealand then financial statements prepared in accordance with foreign GAAP may be accepted. For example, a class exemption has been issued to allow overseas companies incorporated in Australia, which are wholly-owned subsidiaries that have been granted relief under the Australian Securities and Investment Commission's (ASIC) Class Order [98/1418] Wholly-owned entities (the Class Order), to provide the consolidated financial statements that they are required to prepare under financial reporting requirements in Australia. The Companies Act (Overseas Incorporated Companies – Australian Wholly-owned Entities) Exemption Notice 2015 is available here: <https://gazette.govt.nz/notice/id/2015-go3563>.

For more information on exemptions refer to the Companies Office website

(<https://www.business.govt.nz/companies/learn-about/updates/financial-reporting/overseas-companies/faqs-overseas-companies/general-faqs>) or go to [www.legislation.govt.nz](http://www.legislation.govt.nz) to search for exemptions from the Companies Act 1993.

## Opt out requirements

Non-large companies with ten or more shareholders are required to prepare financial statements and have them audited, unless they opt out. In addition, large New Zealand privately owned companies may opt out from appointing an auditor (although must prepare financial statements). In order to opt out, a meeting of shareholders held within the opting period (as defined below) can opt out of compliance by way of a resolution approved by not less than 95% of the votes of those shareholders entitled to vote and voting on the matter.

The opting period for a company is defined as the period from the start of the accounting period until the close of the earliest of the following dates:

- the date that is 6 months after the start of the accounting period;
- the date of the annual meeting to be held in the accounting period; or
- in the case of an accounting period that is shorter than 6 months (as a result of the date of the registration of the company or a change of the balance date of the company), the balance date of the period.

Companies cannot opt out if the constitution expressly provides that this section of the Act (allowing opt-out) does not apply.

Large limited partnerships can annually opt out of appointing an auditor if within 6 months from the start of an accounting period a resolution is passed or signed by partners who together have contributed at least 95% of the capital contributions of all partners. Large partnerships can also annually opt out of appointing an auditor if within 6 months from the start of an accounting period a resolution is passed or signed by partners who together are entitled to share in at least 95% of the capital of the firm. Large limited partnerships and large partnerships cannot opt out if the partnership agreement expressly provides that this section of the Act (allowing opt-out) does not apply.

Entities will need to implement procedures to ensure the relevant opt-out requirements are met if they intend to invoke them within the timeframes specified.

### **Opt in requirements**

Non-large companies that have fewer than 10 shareholders do not have a financial reporting obligation under the Companies Act 1993 unless shareholders with at least 5% of the voting shares give written notice to the company within the opting period (but not later than five working days before the end of the opting period) to require the company to prepare financial statements (and may also require audit).

Non-large limited partnerships also can opt in to preparation and/or audit of the financial statements by way of written notice (within the same opting period) by partners who together have contributed at least 5% of the capital contributions of all partners.

### **Group or parent financial statements?**

If a company or overseas company has one or more subsidiaries at balance date, parent financial statements are not required. Instead group financial statements are prepared.

Group financial statements are not required if the company is a subsidiary of a body corporate incorporated in New Zealand, and group financial statements in relation to the group incorporating the company's parent and all of its subsidiaries (including that company) are prepared.

### **Subsidiaries of New Zealand companies**

There is a known issue with the legislation which is being considered for amendment through a Regulatory Systems Amendment Bill. An exposure draft of the bill proposes to remove the requirement for a company to prepare financial statements in accordance with NZ GAAP if the company has no subsidiaries on balance date, but is a subsidiary of a body corporate that is incorporated in New Zealand, and group financial statements (including the parent, the entity and any other subsidiaries of the parent) are prepared in accordance with NZ GAAP under the Companies Act 1993 or any other enactment. Intermediate holding companies already have this exemption in the Companies Act 1993.



## Other entity types

(those that are FMC reporting entities or public entities will need to comply with the requirements above)

Entity type	Preparation	Audit*	Filing
<b>Registered charity (Charities Act 2005)</b>	✓  Within six months of balance date	Depends  Only required where total operating expenditure <sup>3</sup> is >\$1m = audit required, or \$500k-\$1m = review required.	✓  Included with the annual return within six months of balance date
<b>Incorporated societies (Incorporated Societies Act 1908)</b>	✓  Not required to comply with NZ GAAP (refer discussion below)	✗  (refer discussion below)	✓  Annually (refer discussion below)
<b>Friendly Societies – large registered society or branch (Friendly Societies and Credit Unions Act 1982)</b>  <b>(large = total operating expenditure &gt;\$30m in each of the two preceding financial years)<sup>4</sup></b>	✓  Within three months of balance date	✓	✓  Included with the annual return within three months of balance date
<b>Industrial and Provident Societies (Industrial and Provident Societies Act 1908)</b>	✓  Within four months of balance date  (some non-large societies can opt out)	✓  (some societies can opt out)	✓  Within four months of balance date if large <sup>5</sup>  Otherwise distributed to every member within four months of balance date (unless opt out of preparation)
<b>An operator of a retirement village (Retirement Villages Act 2003)</b>	✓  Within five months of balance date  May also require financial statements in respect of each separate retirement village	✓	✓  Within five months of balance date
<b>Maori Incorporations under the Te Ture Whenua Maori Act 1993</b>	✓  Submitted to annual shareholder meeting, for a period ending not earlier than six months before the meeting	✓  (unless operating payments are less than \$125,000 and shareholders don't opt in by special resolution)	✓  Filed with Registrar in whose court district the land is situated within 14 days after submission to shareholders

<sup>3</sup> A charitable entity is large in respect of an accounting period if, in each of the two preceding accounting periods of the entity, the total operating expenditure of the entity and all entities it controls (if any) is \$1 million or more. A charitable entity is of medium size in respect of an accounting period if it is not large and in each of the two preceding accounting periods of the entity, the total operating expenditure of the entity is \$500,000 or more. XRB A2 outlines how total operating expenditure is to be calculated – refer to the Appendix of this document for more information.

<sup>4</sup> Refer to the Appendix of this publication for more information on how 'total operating expenditure' is determined.

<sup>5</sup> For an entity and its subsidiaries (if any), large is at least one of total assets greater than \$60m, or total revenue greater than \$30m, both in respect of the two preceding accounting periods

\* Must be performed by a qualified auditor. Refer to the Appendix in this publication for more information.

Entity type	Preparation	Audit*	Filing
<b>Community Trusts (Community Trusts Act 1999)</b>	✓  Within five months of balance date	✓	✓  Published on the trust's website and sent to the Minister by 31 August each year.
<b>Corporate Society under the Gambling Act 2003</b>	✓  Within three months of balance date	✓	✓  Within three months to the Secretary of Internal Affairs (for class 4 gambling).  Other publication and distribution requirements may apply. <sup>6</sup>

### Retirement villages

As noted above, operators of retirement villages are not FMC reporting entities. We also note that the Retirement Villages Act will require operators to prepare financial statements of both the operator and its retirement villages where the operator's financial statements include:

- More than one retirement village, or
- Another trading activity that operates independently of the retirement village, and the statutory supervisor or Registrar requires it.

### Incorporated societies

Incorporated societies which are not registered charities or FMC reporting entities are currently not required by law to prepare financial statements in accordance with NZ GAAP or have them audited. In November 2015 an exposure draft of The Incorporated Societies Bill was issued which proposes several amendments to the existing Incorporated Societies Act 1908. The exposure draft suggests similar preparation and filing requirements as for registered charities. The exposure draft has not suggested any audit or review requirements but the Ministry for Business, Innovation and Employment ('MBIE') will consider making recommendations to the Government following the consultation process on the Bill (which ends on 30 June 2016).

MBIE's current thinking on the audit requirements is that incorporated societies do not have the same level of accountability to society that registered charities have and therefore it may be inappropriate to require incorporated societies with total operating expenditure as low as \$500,000 to have an audit or review. Instead, the definition used to determine whether a company is large (i.e. revenue is more than \$30 million or total assets are more than \$60 million) may be applied (which would result in very few incorporated societies having to obtain an audit or review).

### Multiple requirements

Some entities may be captured by more than one legislative requirement for financial reporting, and therefore both requirements should be considered. In particular, we note that the Charities Act 2005 section 42A(3) clearly requires that *"if a charitable entity is subject to another Act that imposes duties relating to the preparation, audit, registration or lodgement of financial statements, the entity must, in addition to complying with this Act, comply with the requirements of the other Act"*.

For example:

- if an entity is an FMC reporting entity and a registered charity, then it will have to prepare financial statements in accordance with GAAP, have them audited and file them with the Department of Internal Affairs – Charities Services and the Companies Office as the Registrar of Financial Service Providers.
- if an entity is a registered charity and a large company (total assets greater than \$60m or total revenue greater than \$30m in each of the two preceding years for companies that have less than 25% foreign ownership) then financial statements will have to be prepared, audited and filed with the Department of Internal Affairs – Charities Services. Companies with less than 25% foreign ownership do not have a filing requirement under the Companies Act and while they can opt out of audit under that Act, the company cannot opt out of audit under the Charities Act 2005.

### Opt out provisions

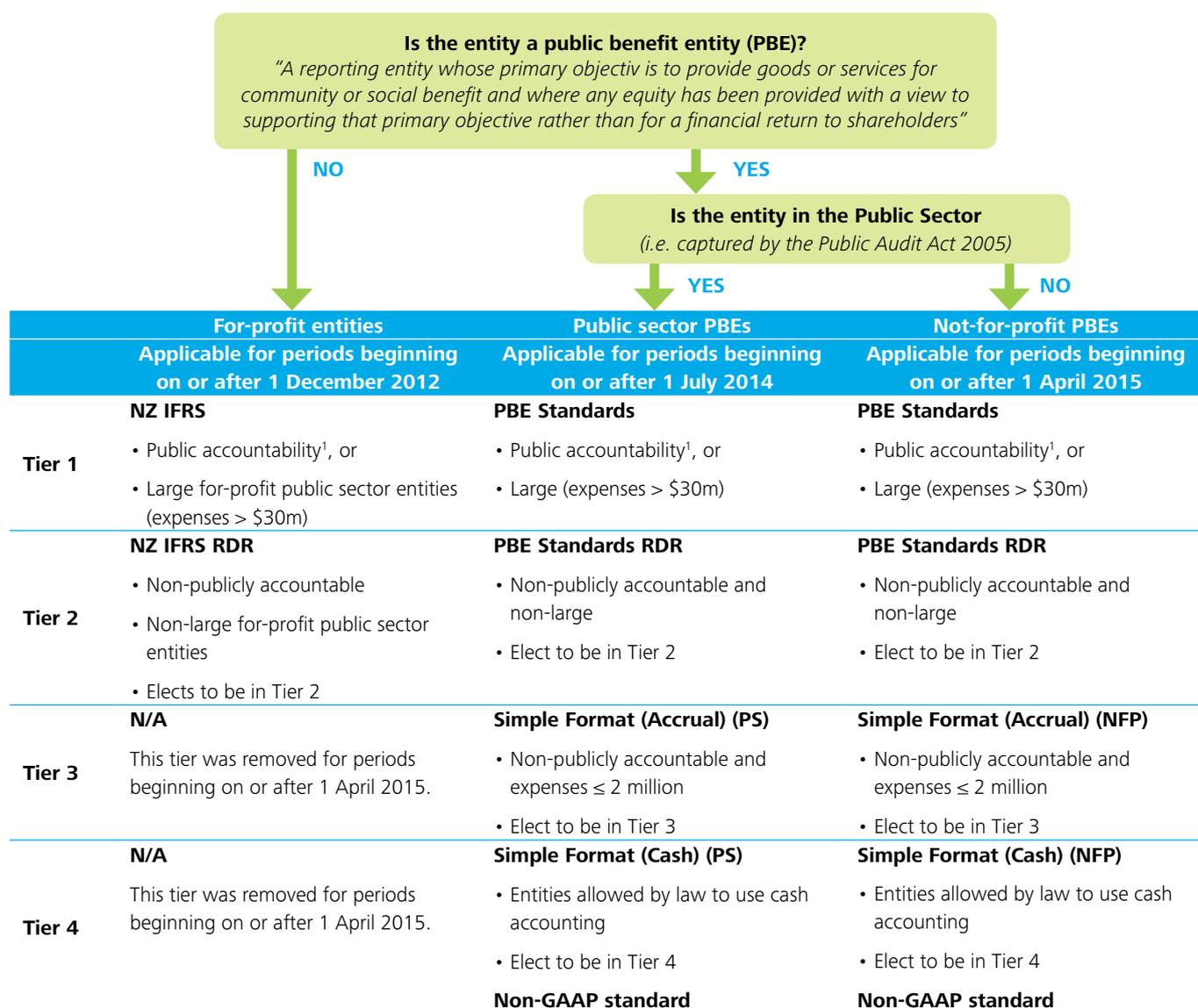
These differ depending on the entity type. We note that the requirements have strict timeframes so entities will need to implement procedures to ensure the relevant opt-out requirements are met on an annual basis.

\* Must be performed by a qualified auditor. Refer to the Appendix in this publication for more information.

<sup>6</sup> If the entity operates gambling equipment at a non-commercial class 4 venue, it must send its financial statements to members / shareholders within 20 working days of when the annual report is sent to the Secretary of Internal Affairs. Other corporate societies under the Gambling Act 2003 must publish the financial statements on their website within four months of balance date.

# Accounting requirements – what standards apply if financial statements are required in accordance with NZ GAAP?

The External Reporting Board (XRB) determines which standards apply for entities required to prepare financial statements in accordance with NZ GAAP. Standards have been issued across three sectors – ‘for-profit’ entities, public benefit entities in the public sector, and ‘not-for-profit’ public benefit entities, with up to four different tiers for reporting within each sector.



## For more information

Standards for for-profit entities and public benefit entities are available on the [www.xrb.govt.nz](http://www.xrb.govt.nz) website.

<sup>1</sup> Definition of ‘publicly accountable’:

- Entities that meet the International Accounting Standards Board’s (IASB) definition of public accountability:
  - Entities that have debt or equity instruments that are traded, or to be traded, in a public market,
  - Entities that hold assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.
- Entities deemed to be publicly accountable. An entity would be deemed to be publicly accountable in the New Zealand context if:
  - It is an FMC reporting entity or a class of FMC reporting entities that is considered to have a “higher level of public accountability” than other FMC reporting entities under section 461K of the FMCA 2013; or
  - It is an FMC reporting entity or a class of FMC reporting entities that is considered to have a “higher level of public accountability” by a notice issued by the FMA under section 461L(1)(a) of the FMCA 2013; or
  - It is an entity to which section 55 of the FRA applies.

Those FMC reporting entities with a higher level of public accountability include listed issuers, licensed insurers, registered banks and equity issuers who make a regulated offer (and have more than 50 shareholders).

# What needs to be considered when financial statements are not required in accordance with NZ GAAP?

As noted in this publication, many small and medium sized companies (that are not registered charities) will no longer have a legislative requirement to prepare financial statements in accordance with NZ GAAP. Where shareholders choose not to opt-in to the legislative framework, we note that there may still be a reporting obligation.

## **Inland Revenue Department minimum financial reporting requirements**

The Inland Revenue Department ('IRD') prescribes minimum financial reporting requirements for companies (other than non-active and small companies as defined) to ensure that they accurately determine their tax positions on the basis of appropriate financial statements – known as the Tax Administration (Financial Statements) Order 2014 ('IRD Order'). The IRD Order is available at [www.legislation.govt.nz](http://www.legislation.govt.nz).

A summary of the minimum requirements is as follows:

- The principles of double-entry method of recording transactions and accrual accounting must be followed
- A balance sheet, profit or loss statement and statement of accounting policies must be presented (with comparative figures for the previous year)
- Valuation methods such as tax values, historical cost or market value may be used
- The financial statements must show all amounts from the IR10 relevant to the company
- Interest and dividends received must be grossed up for resident withholding tax. Dividends received must also be grossed up for imputation credits (to the extent the dividend is taxable and the credits are available to satisfy the company's income tax liability for that income year)
- The financial statements must disclose whether they have been prepared on a GST inclusive or exclusive basis
- Reconciliations of movements in shareholders' equity, and of taxable income to the financial statements must be shown
- Taxation-based schedule of fixed assets and depreciable property must be disclosed
- For those amounts required to be disclosed as an exceptional item on the IR10, sufficient notes to support these amounts must be disclosed in the financial statements
- Certain industry-specific information must also be provided with respect to foresters and owners of specified livestock
- Associated persons transactions must be disclosed (note that the definition of 'associated persons' is found in subpart YB of Part Y of the Income Tax Act 2007, and is different to the definition of a 'related party' in NZ IAS 24)

The following key points should be noted:

- The definition of 'company' in the IRD Order references the definition in section YA 1 of the Income Tax Act 2007 which is very wide and captures other entities such as incorporated societies unless they are captured by another enactment that requires financial statements (e.g. Charities Act 2005).
- Compliance with the IRD Order is mandatory under section 21B of the Tax Administration Act 1994 unless another enactment provides minimum requirements for preparing financial statements for the company (e.g. large private companies are required to prepare financial statements under the Companies Act 1993).
- Subsidiaries of groups which are exempted under the Companies Act 1993 from preparing financial statements where the parent prepares group financial statements will still need to prepare their own financial statements in accordance with the IRD Order.
- If financial statements are only prepared for tax purposes, the Companies Act 1993 requires companies to provide a copy of these statements to shareholders on request.
- Along with the income tax return, a company can either file the IR10 (pro-forma profit and loss statements and balance sheet) or financial statements which comply with the IRD Order – for larger companies the IRD will ask for a copy of the company's financial statements under the Basic Compliance Package process.

The IRD Order provides minimum financial reporting requirements, and is therefore not a complete framework for financial reporting. Entities will need to determine appropriate accounting policies for preparing their accounting records in order to comply with the IRD Order and to account for items not specified in the IRD Order. Hence, financial statements can still be prepared which are partially or fully NZ GAAP-compliant, subject to the IRD's prescribed minimum requirements.

#### **Other requirements and frameworks**

Entities may have other non-statutory obligations to prepare financial statements – such as under banking agreements, lease contracts and other arrangements. In this case, entities should consider whether to 'opt-in' under legislation (e.g. Companies Act 1993) in order to comply with GAAP. Alternatively, as noted above, it is possible to prepare financial statements which are GAAP-compliant subject to the IRD's prescribed minimum requirements.

We note that CAANZ has a framework for special purpose reporting that may meet the needs of the IRD, banks and other users who can request financial statements for their own purposes (i.e. special purpose instead of general purpose). The framework is available on the CAANZ website at [www.charteredaccountantsanz.com](http://www.charteredaccountantsanz.com)

We recommend that you check agreements in place and renegotiate with stakeholders as needed (i.e. will they be satisfied with opting out/not opting in or will they require financial statements prepared in accordance with an alternative special purpose framework?).



# Appendix

## Calculating statutory size thresholds

XRBA A2: *Meaning of Specified Statutory Size Thresholds* sets out how the meaning of certain terms appearing in financial reporting legislation. XRBA A2 provides methods of calculation for certain terms appearing in the following Acts:

### Meaning of 'large', 'total assets' and 'total revenue' as specified in the Financial Reporting Act 2013 and the Companies Act 1993

Refer to page 4 of this publication for a discussion on the meaning of 'large'.

Total assets and total revenue are determined based on the Tier 2 accounting standards in effect and applied by the entity as at each of the relevant balance dates. If an entity is not preparing financial statements in accordance with NZ GAAP, then the accounting records should be used to determine total assets and total revenue based on the Tier 2 standards (i.e. NZ IFRS (RDR) or PBE Standards (RDR) depending on whether the entity is for-profit or a PBE), as if the entity was reporting following those standards.

Total revenue includes all income, revenue and gains that are recognised in profit or loss/revenue and expense. This excludes items of other comprehensive income/revenue and expense. Net amounts are included in determining total assets and total revenue only where standards require or permit items to be accounted for, and recognised as, net amounts in the financial statements.

### Meaning of 'large', 'medium size' and 'total operating expenditure' as specified in the Charities Act 2005

Refer to page 6 of this publication for a discussion of the meaning of 'large' and 'medium size'.

Total operating expenditure is the amount recognised in accordance with the requirements of Tier 1, Tier 2 or Tier 3 accounting standards in effect and applied by the entity as at each of the relevant balance dates. Where financial statements are not prepared, or not prepared in accordance with standards issued by the XRBA, total operating expenditure is the amount determined in accordance with Tier 3 accounting standards, as though the entity were reporting in accordance with those standards.

### Meaning of 'large' and 'total operating expenditure' as specified in the Friendly Societies and Credit Unions Act 1982

Refer to page 6 of this publication for a discussion of the meaning of 'large'.

Total operating expenditure is the amount recognised in accordance with Tier 2 accounting standards in effect and applied by the entity as at each of the relevant balance dates. Where financial statements are not prepared or not prepared in accordance with standards issued by the XRBA, total operating expenditure is the amount determined in accordance with Tier 2 accounting standards, as though the entity were reporting in accordance with those standards.

Total operating expenditure includes all expenses (including losses and income tax expense) that are recognised in profit or loss/revenue and expense. This excludes items of other comprehensive income/revenue and expense. Net amounts are included in determining total operating expenditure only where standards require or permit items to be accounted for, and recognised as, net amounts in the financial statements.

## Qualified auditor

Where an entity, other than a public entity, is required by one of the above enactments to have their financial statements audited, the audit must be performed by a 'qualified auditor'. This term is defined in the Financial Reporting Act 2013 ('FRA'). In brief, a qualified auditor should be:

- A person or company who is a qualified auditor in accordance with the rules of the association of accountants that they belong to and which is recognised as an 'accredited body' under the FRA; or
- A licenced auditor or registered audit firm (under the Auditor Regulation Act 2011); or
- Certain overseas persons or companies recognised by the FRA.

The qualified auditor cannot be a director or employee (or a partner or employee of a director or employee) of the entity. Certain other entities also cannot be qualified auditors (e.g. a body corporate that is not a registered audit firm or a company as referred to in the first point above).

With regard to FMC reporting entities, the auditor must be a licenced auditor or a registered audit firm in order to be a qualified auditor.

Also note that not all members of an accredited body, such as Chartered Accountants Australia and New Zealand ('CAANZ'), will be eligible to act as a qualified auditor. Entities will need to check with their auditor (or reviewer) whether they meet the new eligibility requirements.

# Contacts

## Auckland

### Denise Hodgkins

+64 9 303 0918  
dhodgkins@deloitte.co.nz

### Victoria Turner

+64 9 303 0794  
viturner@deloitte.co.nz

### Michael Moran

+64 9 306 4301  
michaelmoran@deloitte.co.nz

## Hamilton

### Bruno Dente

+64 7 834 7842  
bdente@deloitte.co.nz

## Wellington

### Jacqueline Robertson

+64 4 470 3561  
jacrobertson@deloitte.co.nz

## Christchurch

### Mike Hoshek

+64 3 363 3744  
mhoshek@deloitte.co.nz

## Dunedin

### Mike Hawken

+64 3 474 8684  
mhawken@deloitte.co.nz

Publications on the framework are available at:

<http://www2.deloitte.com/nz/en/pages/audit/articles/financial-reporting-framework.html>



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