



Chapter 12

Financial Reporting

Overview

Introduction Section 548 of the Education and Training Act 2020 provides for the payment of various subsidies to licensed Early Childhood services.

Services are required to report on how government funds have been spent as a condition of their licence.

This section outlines what kind of financial information a service should send to the Ministry and when to send it.

Services may have funding withheld if they do not complete the financial reporting requirements.

In this chapter This chapter contains the following topics:

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12-1 Financial reporting: general information

Introduction

A condition of funding is that services report annually to both the Ministry and community (parents, staff and whānau) on how the Ministry's funding has been spent. Services should report on each category of funding received from the Ministry.

Services may choose how they report to their community on the spending of this funding. This can be done by detailing the information in a newsletter, a notice displayed at the service or by publishing their annual financial reports.

This information must be available at the service within **180 days** of the end of the financial year.

Financial reports required by the Ministry

All services that have been in operation for a full financial year must provide the Ministry with copies of their audited financial reports. Community-based and private services have different reporting requirements. The types of financial reports required is outlined in 12-2: Types of Financial Reports.

Services that have not completed a full financial year of operation do not have to provide audited financial reports.

When to send your financial report

Services have until 30 June each year to send the Ministry their audited financial reports for the previous financial year.

The following table shows an **example** of financial years and when the information should be sent in.

If your financial year was...	You will need to send your financial information to the Ministry by
1 April 2008 – 31 March 2009	June 2010
1 July 2008 – 30 June 2009	June 2010
1 October 2008 – 30 September 2009	June 2010
1 January 2009 - 31 December 2009	June 2010
1 April 2009 – 31 March 2010	June 2011

12-1 Financial reporting: general information, Continued

Warning

Your service may have their advance funding withheld if:

- it misses the reporting deadline
 - financial reports are not audited or do not meet the audit requirements. Refer to **Section 12-4**.
 - audited financial reports do not meet the Ministry's reporting requirements (e.g. equity funding has not been reported separately). Refer to **Section 12-2**.
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Change in requirements from 1 January 2011

An income threshold for financial reporting is being introduced from 1 January 2011.

For the purposes of the income threshold, 'income' is all funding received from the Ministry of Education (inclusive of GST).

Services with an income of less than \$80,000 will not have to provide audited financial reports. Services with an income of more than \$80,000 will still have to provide audited financial reports.

The income threshold does not come into effect until 1 January 2011. All services, regardless of income, are required to submit audited financial reports for the financial year ending in 2009.

12-2 Types of financial reports

Introduction The type of financial report that must be supplied to the Ministry depends on the ownership structure of the service.

This section explains:

- the difference between general purpose financial statements and a special purpose financial report
 - how to decide if your service should provide general purpose financial statements or a special purpose financial report
 - consolidated reporting, if your service is one which is grouped into a service provider (for funding purposes), or you are a licensee of more than one service.
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Financial information required Use this table to find out if your service should provide general purpose financial statements or a special purpose financial report:

If your service is...	you...
A community-based service, for example an incorporated society, a charitable trust, a registered charity, owned by a community organisation, or considered a Public Benefit Entity under XRB requirements	must provide general purpose financial statements .
A private service, for example a partnership, sole trader, or limited liability company	can choose to provide either general purpose financial statements or a special purpose financial report .

NOTE: Where a service meets both definitions, general purpose financial reports are required.

Definitions of community-based and private services are available in the **Glossary**.

General purpose financial reports

A **general purpose** financial report should include:

- a statement of accounting policies
- a statement of financial performance (profit and loss account) that includes specific reference to the funding received from the Ministry of Education (including the ECE Funding Subsidy, 20 Hours ECE funding and 'targeted' funding such as Equity Funding)
- a statement of financial position (balance sheet)
- a statement of movements in equity
- the notes to the financial statement should state how each type of funding has been spent (if a service has received more than one type of funding).

Services receiving the Annual Top-Up for Isolated Services (ATIS) must



report this as part of their income. They **do not** need to report how it was spent.

Special purpose financial statements

A **special purpose** financial statement should include:

- a statement of accounting policies
- details of the amount of funding received from the Ministry of Education (including the ECE Funding Subsidy, *20 Hours ECE* funding and 'targeted' funding such as Equity Funding or ATIS Funding)
- information on how the funding has been spent.

Services receiving the Annual Top-Up for Isolated Services (ATIS) must report this as part of their income. They **do not** need to report how it was spent.

Consolidated reports for service providers

Some reporting areas of general purpose financial statements and special purpose audit reports can be consolidated for services that are grouped into a service provider for funding purposes.

The table below outlines the reporting areas that **can be consolidated** and those that **must be itemised** (i.e. reported individually for each service).

Reporting area	Type of service that must provide this information	Reporting requirement for service providers of more than one service
Statement of accounting policies	All ECE services	May be consolidated (i.e. one statement of accounting policies covering all services)
Statement of financial performance (profit and loss account)	All ECE services except privately owned services	Must be itemised by service
Statement of financial position (balance sheet)	All ECE services except privately owned services	Must be itemised by service
Statement of movement in equity	All ECE services except privately owned services	Must be itemised by service
Special purpose financial report	Privately owned ECE services only	Must be itemised by service
Audit report prepared by a member of the New Zealand Institute of Chartered Accountants	All ECE Services	May be consolidated (i.e. one report covering all services)

Playcentres

Each Playcentre is required to send a copy of their audited financial statement of Receipts and Payments to the Ministry.

In addition, **each Playcentre Association** is required to send a copy of their audited general purpose financial statements to the Ministry

12-3 Reporting requirements for targeted funding

Introduction Each service’s annual audited general purpose financial statements or special purpose financial report must include information about ‘targeted funding’ the service has received.

Targeted funding includes:

- Equity funding
- Annual Top-Up for Isolated Services (ATIS)

For further information on these funding types, see **Chapters 5** and **10** of this Handbook.

Equity funding Services must report directly to parents and the local community on how they spend their equity funding.

The reporting mechanism may be decided at the discretion of individual services (or the service provider). Each service must include the following information in their annual audited general purpose financial statements or special purpose financial report:

- an outline of the amount received under each component of equity funding
 - a brief description of what the funding was spent on
 - a brief outline of the reasons for spending the equity funding in that way.
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Annual Top Up for Isolated Services

The value of the ATIS should be included in the service’s general purpose financial statements or special purpose financial reports as part of reporting on the ECE Funding Subsidy.



12-4 Auditing financial reports

Auditor requirement

All services **must** have their general purpose financial statements or special purpose financial report audited by a chartered accountant who is a member of the New Zealand Institute of Chartered Accountants (NZICA).

Tip: Services can find an auditor or check whether their auditor is an NZICA member by visiting the website www.nzica.co.nz.

Auditor must not also prepare statements

A service's general purpose financial statements or special purpose financial report may be prepared by an accountant, financial advisor or other person who is associated with the service's management group. The person or entity that carries out the audit **must** be independent of that group.

The person or entity preparing or compiling the general purpose financial statements or special purpose financial report **cannot** also audit the statements or report.

Basic elements of audit report

NZICA sets the auditing standards and members can obtain information from their website. In broad terms the basic elements of an audit report are the following:

1. The formal name and status (such as charitable trust or incorporated society) of the reporting entity.
2. An introductory paragraph identifying the accounting policies used.
3. A statement indicating to the reader that it is the service's management group and not the auditor who is responsible for the preparation of the financial report.
4. A paragraph indicating that the auditor is responsible for expressing an independent opinion on the financial statements. The auditor should also disclose whether he or she has any personal or professional interests/relationships with the centre other than as auditor.
5. A brief explanation of the audit process and what the auditor has done to be able to give an opinion.

The audit report **must** be signed and dated by the auditor.

Warning

Services must send their audit reports to the Ministry along with their audited general purpose financial statements or audited special purpose financial report.

Reports on 'targeted' funding (i.e. Equity Funding and ATIS Funding), form part of the financial statements and must be audited.

Services may have their funding withheld if they fail to meet the audit requirements.
