
REPORT 5
(1215/52/01/IM)

IMPLICATIONS FOR COUNCIL OF NEW AND PROPOSED FINANCIAL REPORTING STANDARDS

1. Purpose

The purpose of this regular report is to inform the subcommittee of new and proposed Financial Reporting Standards and their likely impact for the Council.

2. Recommendations

It is recommended that the Subcommittee:

- 1. Receive the information*
- 2. Note the developments in New Zealand generally accepted accounting practice (GAAP) since the last Subcommittee meeting in December 2005.*

3. Background

The Local Government Act 2002 requires the Council to comply with GAAP in preparing the Annual Report. GAAP is defined by the Accounting Standards Review Board (ASRB) to encompass all applicable Financial Reporting Standards (FRSs) and other sources of appropriate authoritative support (for example; exposure drafts of financial reporting standards, international accounting standards etc).

Council Officers have undertaken to report to the Subcommittee on a regular basis in relation to any new FRSs and any exposure drafts currently on issue by the New Zealand Institute of Chartered Accountants (the Institute). This report outlines developments in GAAP and the implications for the Council since the last subcommittee meeting on 5 December 2005.

4. NZ IFRS Project

Local authorities will adopt NZ IFRS for external reporting purposes for the accounting period ending 30 June 2007. The requirement for comparative figures to comply with NZ IFRS in the year of adoption means that the Council will need to be in a position to comply with the new standards from the beginning of the prior period (i.e. 1 July 2005).

Since the last subcommittee meeting in September, the Council's NZ IFRS working group has been working on finalisation of the following documents for inclusion in the Council's 2006/16 LTCCP:

- NZ IFRS Statement of Accounting Policies
- Preparation of the opening balance sheet reconciliation between existing NZ GAAP and NZ IFRS as at 1 July 2005.

Two workshops were held during December and February to enable Subcommittee members to review and make comment on the documents. Audit New Zealand also completed their review.

At the time of preparing this report, these documents had been submitted to the Council's Strategy and Policy Committee (SPC) for approval, with Council approval to follow on 8 March 2006. The final versions of these documents, as approved by SPC and Council, will be tabled at the 10 March 2006 subcommittee meeting.

It is important to note that the documents reflect applicable NZ IFRS as at the date of preparation. The policies will be updated to reflect ongoing amendments to NZ IFRS. As a result the final policies and opening balance sheet reconciliation reported in the Council's final 2006/16 LTCCP and 30 June 2007 financial statements may differ from those in the draft LTCCP.

We will keep the subcommittee updated on any changes in NZ IFRS and the impact thereof.

5. NZ IFRS Work Programme

5.1 Council work programme

A significant amount of work is planned for the next six months as we approach the implementation date of 1 July 2006. We are currently working on a template for the Council's first NZ IFRS financial statements. We expect this to be complete by the end of March and will circulate for the subcommittee's review when available.

5.2 Group work programme

The Council's working group are also assisting group entities to prepare for NZ IFRS. The Council is committed to ensuring our consolidated Group will be ready for the transition to NZ IFRS. Therefore, we have been working with the finance representatives of group entities to provide support and assistance as appropriate.

We have been working with CCOs to establish whether they are PBEs or profit oriented entities for accounting purposes. This work is currently being finalised. A workshop for CCO finance representatives is planned for 30 March 2006 to discuss vanilla templates for the Summary of Accounting Policies and Opening Balance Sheet Reconciliation for Group entities. The purpose of this is:

- to ensure that Group entities are well prepared for implementation on 1 July 2006;
- to ensure consistency of Group accounting policies where possible; and
- to facilitate completion of the Group Opening Balance Sheet Reconciliation to be included in the Council's first NZ IFRS compliant financial statements.

We will continue to report the progress of the project to the subcommittee on a quarterly basis.

6. Developments in Financial Reporting Standards

6.1 Submissions Made

The Council makes submissions on exposure drafts where there is potential for a significant impact on either the Council as a reporting entity or the level of funding provided by ratepayers. We also consider whether the proposals are appropriate, in our opinion, from a standard setting perspective.

No new submissions have been made by the Council since the last subcommittee meeting in December.

We have received a response from NZ ICA in relation to our earlier submission on Exposure Draft Guidance Notes for the Application of Generally Accepted Accounting Practice by Trusts. The NZ ICA response, which outlines "a need for further research in some areas of financial reporting by trusts", is attached as Appendix One to this report.

6.2 Exposure Drafts on Issue

The following exposure drafts are currently open for comment:

- IASB ED Management Commentary
- Draft Technical Correction (DTC) 1 Proposed Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates—Net Investment in a Foreign Operation.
- ED 104 Proposed Differential Reporting Concessions for the forthcoming New Zealand Equivalent to IFRS 7 *Financial Instruments: Disclosures* and Amendments to New Zealand Equivalent to IAS 1 Presentation of Financial Statements—Capital Disclosures.
- IASB DP Measurement Bases for Financial Accounting – Measurement on Initial Recognition
- NZ ED 8 Operating Segments

- NZ IFRIC Draft Interpretation D18 Interim Financial Reporting and Impairment
- ED 106 Proposed Additional Disclosure Requirements for Financial Institutions Applying NZ Equivalent to IFRS 7 Financial Instruments: Disclosures.

Council Officers expect to submit on the first exposure draft listed. We will provide copies of any submissions made at the next subcommittee meeting.

7. Conclusion

A significant number of achievements are planned for the next four months as we approach the start of the first full NZ IFRS reporting period. We will circulate any key documents prepared to Subcommittee members as they become available.

We will also continue to report developments to the subcommittee on a quarterly basis.

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Appendix One

Correspondence from NZICA