
REPORT 2
(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. Recommendation

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 regular Subcommittee meeting in October 2009.*

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 regular Subcommittee meeting on 5 October 2009. Developments in International Public Sector Accounting Standards (IPSAS) will also be presented to this Subcommittee for completeness.

4 Developments in Financial Reporting Standards

4.1 Submissions Made

The Council makes submissions on discussion papers exposure drafts where there is potential for it to have 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. While the Council did not make any formal submissions during the period we have been actively working towards a submission on the proposed changes to the *Statutory Framework for Financial Reporting* in New Zealand which will be presented at the next subcommittee meeting in March 2010.

4.2 Proposed future accounting and assurance standards framework

On 30 September 2009 the Ministry of Economic Development (MED) and the ASRB released two discussion documents proposing changes to the New Zealand Financial Reporting Framework. The MED discussion document contains proposed changes to who should be required to prepare and file general purpose financial reports (GPFR), and who will need to obtain assurance. The ASRB discussion document proposes changes to what accounting standards should be used when preparing GPFR and the level of assurance to be obtained on those reports.

The MED document proposes to create a new External Reporting Board, which will be an independent crown entity consolidating all of the standard setting functions of the ASRB, Financial Reporting Standards Board and the Professional Standards Board. It will be responsible for financial reporting strategy, preparation and approval of accounting standards as well as the preparation and approval of assurance standards.

The MED also proposes the introduction of reporting tiers and a statutory process for determining how the number of tiers of financial reporting and the qualifying criteria for each tier will be determined. It also outlines preliminary views on whether each class of entity should be required to prepare financial statements and, if so, whether the statements will need to be audited and /or published.

The ASRB discussion document makes proposals about the number of tiers and the qualifying criteria for each tier and generally describes the nature of the financial reporting and assurance requirements tentatively proposed for each tier.

Currently a single set of standards applies to all sectors in New Zealand (NZ IFRS). The MED document proposes sector specific standards which would mean the Council would no longer be required to report under NZ IFRS. Instead the Council would be required to apply a set of standards specific to Public Benefit Entities (PBEs). These are proposed to either be International Public Sector Accounting Standards (IPSAS) which are developed by the International

Public Sector Accounting Standards Board (IPSASB) or a New Zealand set of standards developed separately but using IPSAS as a base.

We acknowledge that there are some issues with the current framework and with the appropriateness of NZ IFRS for PBEs and believe that there is a need for specific PBE guidance in some areas where NZ IFRSs do not provide sufficient clarity (e.g. heritage assets, non exchange revenue, consolidation of trusts). However, we still consider that a single set of standards for all sectors is the most appropriate approach to setting financial reporting standards in New Zealand. New Zealand standard setters are acknowledging that there is additional guidance needed for public sector entities and they have recently published an exposure draft on non-exchange revenue which is particularly relevant to the public sector. This is explained in more detail in section 4.3 below. A single set of standards also allows individuals to work across all sectors which will become increasingly difficult if we move to sector specific standards. This is because individuals will have a number of additional sets of accounting standards to learn and monitor for changes. While there are not a significant number of differences at the moment, IFRS and IPSAS may diverge or develop at different rates in the future and this will make it increasingly difficult to stay current with the knowledge across all standards.

Audit New Zealand recently reviewed the financial statements of the government for compliance with 2009 IPSAS to outline the changes to reporting that would be required if public sector specific standards were required. It was found that most standards are similar to NZ IFRS however there would be some changes required. We have used this analysis to assess the likely impact for the Council of a transition to IPSAS and note there would be changes required in the following areas:

- IPSAS 18 Segment Reporting – The Council would be required to prepare segment based financial statements. Currently public benefit entities are not required to apply segment reporting under NZ IFRS.
- IPSAS 23 Revenue from Non-Exchange Transactions – The Council would be required to separately disclose revenue from non-exchange transactions. There is currently an exposure draft proposing to introduce a standard on non-exchange revenue into NZ IFRS. This is summarised in 4.3 below.
- There would also be additional disclosures required on:
 - Revaluations
 - Number of key management personnel
 - Total amount of remuneration and compensation made to close family members of key management personnel
 - IPSAS 23 Revenue from Non-Exchange Transactions: restrictions, basis of fair values etc.

The Council is currently reviewing the proposals and preparing a submission on the discussion documents which will be presented at the next sub-committee meeting in March 2010.

4.3 Summary of Exposure Drafts reviewed since last Subcommittee meeting

There were a number of exposure drafts reviewed which we have divided between exposure drafts with a potential impact for the Council and those with limited or no expected impact.

4.3.1 Exposure drafts reviewed with potential impact for Council reporting

Exposure Discussion Paper	Draft/	Impact/Summary
IASB Exposure Draft ED/2009/11 Improvements to IFRSs		This exposure draft proposes several minor amendments to a number of International Financial Reporting Standards as part of its annual improvements project. There is no significant impact expected for the Council.
AASB ED 180 / FRSB ED 118 Income from Non-exchange Transactions (Taxes and Transfers)		<p>This exposure draft proposes requirements for the recognition and initial measurement of income from non-exchange transactions by public benefit entities (PBEs) in the private or public sector. A non-exchange transaction occurs when an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange. The Council has a number of sources of non-exchange revenue.</p> <p>This is a significant example of a Financial Reporting Standard (FRS) being developed specifically for the public sector. While this standard has not been developed by the International Accounting Standards Board, all entities that report under NZ GAAP would be required to apply this FRS. The impact for the Council will be mainly presentational in both the primary statements and in the notes, where we will be required to separately disclose the revenue from non-exchange transactions. Additional impacts are that greater analysis of transactions will be required to determine the correct categorisation, timing of recognition of income,</p>

	transferred assets and associated liabilities arising from conditional transfers of assets to the Council. Financial assets and liabilities will continue to be measured in accordance with NZ IAS 39. Additional disclosures are also required including the nature and type of service-in-kind transactions.
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4.3.2 Exposure drafts reviewed with limited or no expected impact on Council reporting

Exposure Discussion Paper	Draft/	Summary
IASB ED/2009/8 regulated Activities	Rate-	<p>This exposure draft has been developed with the intention of giving guidance to entities that have rate regulated activities. Rate regulation is a restriction on the setting of prices that can be charged to customers for services or products. An example would be utilities where a regulator is used to establish prices that are intended to be fair to both the entity and its customers.</p> <p>Rate regulated entities are able to adjust future income/fees to recover previously incurred costs or refund income collected in excess of costs. These entities would be required to recognise an asset or liability equal to the amount they would be able to recover or required to refund in future years.</p> <p>The Council are intending to write a short response requesting increased clarity on which entities would fall under this standard. We have sought external advice and believe that this standard is not intended to apply to the Council but the standard is not sufficiently clear to be able to confirm this.</p> <p>The Council will present a copy of this at the next subcommittee meeting.</p>

4.3.3 Exposure drafts relating to International Public Sector Accounting Standards (IPSAS)

At the moment there are no IPSAS exposure drafts.

4.4 Exposure Drafts on Issue

The following exposure drafts are currently open for comment and will be reviewed by the Council before the next subcommittee meeting:

- IASB ED 2009/6 Management Commentary (Guidance)
- ED 119 Proposed Amendment to NZ IFRS 3—Scope exemption

We are currently reviewing these exposure drafts to determine any potential impacts on the Council. We will provide analysis of impacts for the Council and copies of any submissions made at the next Subcommittee meeting.

5. NZICA Recognition

The Council's CFO, Neil Cherry was honoured at the Institute's AGM in November 2009 by being awarded a fellowship. Fellowships are conferred on members of the New Zealand Institute of Chartered Accountants who have demonstrated outstanding service to the accounting profession, or to the community. In addition to his achievements at the Council, Neil has dedicated a significant amount of his time to serve the Institute as a Committee member, both as a member of the National Public Sector Committee (since 2003) and of the Professional Standards Board (since 2005). Since late 2008 Neil has served as the Chair of the PSB and New Zealand's representative on the Trans-Tasman Auditing and Advisory Group.

6. Conclusion

We note that there is a significant amount of standard setting activity going on at the moment. We will circulate any key documents to Subcommittee members as they become available. We will also continue to report developments in Financial Reporting Standards to the Subcommittee on a quarterly basis.

Contact officer: *Nicky Blacker*
Manager, Financial Accounting

Supporting Information
<p>1) Strategic Fit/Strategic Outcome</p> <p><i>The report supports Council's overall vision of Creative Wellington – Innovation Capital by ensuring that legislative compliance with GAAP (NZ IFRS) is appropriately managed.</i></p>
<p>2) LTCCP/Annual Plan reference and long term financial impact</p> <p><i>Relates to C534: Committee and Council process</i></p>
<p>3) Treaty of Waitangi considerations</p> <p><i>There are no Treaty of Waitangi implications</i></p>
<p>4) Decision-Making</p> <p><i>This is not a significant decision</i></p>
<p>5) Consultation</p> <p>a) General Consultation</p> <p><i>Not required</i></p> <p>b) Consultation with Maori</p> <p><i>Not required</i></p>
<p>6) Legal Implications</p> <p><i>None</i></p>
<p>7) Consistency with existing policy</p> <p><i>This report is consistent with existing Wellington City Council policy</i></p>