
REPORT 2
(1215/52/01/1M)

IMPLICATIONS FOR COUNCIL OF NEW AND PROPOSED FINANCIAL REPORTING STANDARDS

1. Purpose of Report

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

2. Recommendations

Officers recommend that the Audit and Risk Management Subcommittee:

- 1. Receive the information.*
- 2. Note the developments in New Zealand generally accepted accounting practice (GAAP) since the last regular Subcommittee meeting on 8 June 2011.*

3. Background

The Local Government Act 2002 requires the Council to comply with GAAP in preparing the Annual Report. GAAP is defined by the External Reporting Board (XRB) 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 IFRSs 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 8 June 2011. Although not currently applicable for the Council, developments in International Public Sector Accounting Standards (IPSAS) will also be presented to this Subcommittee for completeness. These developments will become more relevant going forward as a result of the External Reporting Board (XRB) proposal to develop a set of NZ PBE standards based on IPSAS. See section 4.1.2 for more details.

4. Developments in Financial Reporting Standards

4.1 Transition to IPSAS based public sector specific standards

4.1.1 IPSAS conceptual framework

Since the last subcommittee meeting we have reviewed Consultation Papers for phase 2 (Elements and Recognition in Financial Statements) and phase 3 (Measurement of Assets and Liabilities in Financial Statements) of the development of the IPSASB Conceptual Framework. There were a number of interesting questions and discussion points raised as part of these consultation papers.

Phase 2 looked at elements and recognition in Financial Statements. Although much of what was being proposed made sense there were a few items of concern including the mention of having a government's (or Council's) "right to tax" as a perpetual asset and the inherent government's (or Council's) responsibilities as a perpetual liability on the balance sheet. It also proposed two methods of recognising income, the first identified which inflows and outflows are "applicable to" the current period (revenue and expense-led approach), and the second looked at changes in net assets, defined as resources and obligations, "during" the current period (asset and liability-led approach). We felt that there were benefits and drawbacks to both of these approaches but agreed with the general summary of what the users of our accounts (ratepayers and residents) would want to know "whether the revenues recognized were sufficient to meet the costs incurred during the period".

Phase 3 looked at measurement of assets and liabilities in Financial Statements. It proposed a number of options for the measurement of assets and liabilities including using one measurement basis for all. We would support the use of multiple measurement bases for different assets and liabilities rather than a "one size fits all" approach. We believe it is unlikely that one measurement base would be the most appropriate (and indeed cost effective) way of measuring all assets and liabilities within an entity's financial statements. It introduces a "deprival value model" to assess the value of assets but this seems to be quite complex. We already use a model similar to the deprival model when assessing assets for impairment. Using this model for all assets would significantly increase the complexity and time required to determine the value of an asset. We also have some concerns that historic cost does not appear to be an option here which means that every single asset and liability would have to be assessed under the model. Historic cost is an appropriate method for some assets, especially given materiality considerations or for assets which have restricted use or cannot be sold easily.

4.1.2 External Reporting Board (XRB) consultation papers on proposed changes to the accounting standards framework

These consultation papers were released by the XRB on 14 September. They propose establishing of a set of NZ PBE standards based on International Public Sector Accounting Standards (IPSAS) modified as appropriate for New Zealand circumstances and also for application by not-for-profit entities. The XRB is proposing that the new PBE framework for public sector entities be effective for financial years beginning on or after 1 July 2013. The closing date for submissions on the consultation papers is 16 December 2011. A copy of the draft submission will be presented to the Subcommittee at its meeting on 6 December 2011 and any comments from subcommittee members can be incorporated before the final submission is sent to the XRB.

4.2 Submissions made

The Council makes submissions on discussion papers or 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.

Since the last regular Subcommittee meeting on 8 June 2011 the Council has made no submissions.

4.3 Summary of exposure drafts reviewed since last Subcommittee meeting

Exposure drafts are 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 Draft/ Discussion Paper	Impact/Summary
None	None

4.3.2 Exposure drafts reviewed with limited or no expected impact on Council reporting

Exposure Draft/ Discussion Paper	Impact/Summary
None	None

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

While the Council is not currently required to apply International Public Sector Accounting Standards (IPSAS), we continue to review them and assess the impact on the Council if we were required to move to reporting under IPSAS.

Exposure Draft/ Discussion Paper	Impact/Summary
IPSASB ED 45, Improvements to IPSASs 2011	This exposure draft proposes several minor amendments to a number of International Public Sector Accounting Standards as part of its annual improvements project.
IPSASB ED - Key Characteristics of the Public Sector with Potential Implications for Financial Reporting	The document outlines key characteristics of the public sector that may have implications for the development of a conceptual framework for the public sector and therefore on accounting standard setting in the public sector. This ED forms part of the work that the IPSASB has been doing on the Conceptual Framework.

4.4 Exposure drafts on Issue

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

- ED/2011/2 Improvements to IFRSs
- ED/2011/4 Investment Entities
- ED/2011/3 Mandatory Effective Date of IFRS 9

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. Conclusion

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.

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Supporting Information

1) Strategic Fit / Strategic Outcome

The report supports Council's overall vision by ensuring that legislative compliance with GAAP (NZ IFRS) is appropriately managed.

2) LTCCP/Annual Plan reference and long term financial impact

The report has no specific Annual Plan reference. There is no long term financial impact arising from the report.

3) Treaty of Waitangi considerations

There are no specific Treaty of Waitangi considerations.

4) Decision-Making

There are no significant decisions required by the paper.

5) Consultation

a) General Consultation

There are no parties significantly affected by this paper.

b) Consultation with Maori

Maori are not significantly affected by this paper.

6) Legal Implications

This report has no specific legal implications.

7) Consistency with existing policy

This report is consistent with existing policy.