

AUDIT AND RISK MANAGEMENT SUBCOMMITTEE

18 June 2012



REPORT 3
(12/15/52/01/IM)

IMPLICATIONS FOR COUNCIL OF 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 2 April 2012.*
3. *Note the implications of the Local Government (Financial Reporting) Regulations 2011 on the Council's financial reporting.*

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 XRB. This report outlines developments in GAAP and the implications for the Council since the last regular Subcommittee meeting on 2 April 2012. 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 Public Benefit Entity (PBE) standards based on IPSAS.

4. Developments in financial reporting

4.1 Submissions

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.

4.1.1 Submissions made

Since the last regular Subcommittee the Council has made no submissions on issued exposure drafts.

4.2 Summary of exposure drafts reviewed since the last committee meeting

Exposure drafts are divided between exposure drafts with a potential impact for the Council and those with limited or no expected impact.

4.2.1 Exposure drafts reviewed with potential impact on Council reporting

| Exposure Draft/ Discussion Paper | Impact/Summary |
|-------------------------------------|----------------|
| None | None |

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

| Exposure Draft/ Discussion Paper | Impact/Summary |
|-------------------------------------|----------------|
| None | None |

4.2.3 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 |
|--|--|
| <p>Consultation paper: Conceptual framework for general purpose financial reporting by public sector entities: Presentation in general purpose financial reports</p> | <p>The paper provides three core definitions, display (of core information), disclosure (of supporting information) and presentation. The framework will draw on previous work defining the focus on user needs, providing useful information for accountability and decision making and the qualitative characteristics. The application of this earlier work to presentations is provided by the third part, the presentation concepts. The presentation concepts are:</p> <ol style="list-style-type: none"> 1. Select information that meets user needs, satisfies the cost-benefit test, and is sufficiently timely; 2. Locate information to meet user needs; 3. Organize information to make important relationships clear and support comparability. <p>The third concept is further analysed by looking at what are termed 'important relationships' being: Enhancement, Similarity and Shared Purpose.</p> <p>As the preferred intention of IPSASB is to have the content and structure of the GPFs defined at a standards level based on the conceptual framework the presentation concepts are necessarily broad.</p> <p>There is nothing in the consultation paper that appears likely to have a significant impact on our reporting if it is used for the development of the presentation requirements in subsequent standards.</p> |

4.3 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/2012/1 Annual Improvements to IFRSs 2010-2012 Cycle

- XRB ED2012-3 Framework: Public Benefit Entities
- ED - IPSASB ED 47 - Financial Statement Discussion and Analysis
- ED - IPSASB Consultation Paper Presentation

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.

A package of four exposure drafts that operationalise the new Accounting Standards Framework as it applies to for-profit entities was issued by the XRB in April 2012. The Council is a public benefit entity but has one for-profit subsidiary, Wellington Cable Car. We will encourage Wellington Cable Car to review these exposure drafts and make their own submissions if required.

A package of 40 exposure drafts for the new PBE Accounting Standards as they will apply to Tier 1 and Tier 2 public sector PBEs is expected to be issued in July 2012.

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) LTP/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.