

AUDIT AND RISK MANAGEMENT SUBCOMMITTEE

8 OCTOBER 2012



REPORT 2
(1215/52/01/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 18 June 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) having released exposure drafts for a suite of New Zealand Public Benefit Entity (PBE) standards based on IPSAS.

4. Developments in financial reporting

4.1 Issue of Public Sector PBE Standard Exposure Drafts

In March 2012 the External Reporting Board (XRB) announced its decisions in relation to the new Accounting Standards Framework for Public Benefit Entities (PBEs). In the announcement the XRB confirmed its proposal to adopt two sets of standards: one set for for-profit entities based on IFRS and another set for public benefit entities based primarily on International Public Sector Accounting Standards (IPSAS), modified as necessary for the New Zealand environment. There will be four tiers of reporting, each with their own reporting requirements.

The Tiers and the applicable reporting requirements for PBEs are:

Tier	Standards Applicable
1	PBE Standards
2	PBE Standards with disclosure concessions
3	PBE Simple Format Reporting Standards for Accrual Accounting
4	PBE Simple Format Reporting Standards for Cash Accounting

The Council is in Tier 1 because it has public accountability and expenses > \$30m. For an entity to be determined as public accountability it needs to trade in the public market and hold assets in a fiduciary capacity. The Council Controlled Organisations may also be affected by these changes and Council officers will be contacting the relevant parties to discuss potential impacts.

The standards will be adopted on 1 July 2014. Council officers are currently reviewing the impact of the proposed standards contained in a package of 41 exposure drafts and will look to make submissions on behalf of the Council before the submission deadline of 14 December 2012.

4.2 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.

4.2.1 Submissions made

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

4.3 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.

4.3.1 Exposure drafts reviewed with potential impact on 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
IASB ED/2012/1 Annual Improvements to IFRSs 2010-2012 Cycle	The improvements covered changes to: IFRS2 – Share based payment, IFRS3 Business combinations, IFRS9 Financial instruments, IFRS8 Operating segments, IFRS13 Fair value measurement, IAS1 Presentation of financial statements, IAS7 Statement of cash flows, IAS12 Income taxes, IAS16 Property, plant and equipment, IAS38 Intangible assets, IAS24 related party disclosures, IAS36 Impairment of assets. No significant impact is expected from the changes.
ED 2012-3 Framework: Public Benefit Entities	The establishment of the new Accounting Standards Framework necessitates splitting the current suite of standards in to separate suites. The PBE standards to be applied in the suite are identical to the standards currently being followed with only minor changes. The minor changes are not expected to have a significant impact on our reporting.

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), the XRB has released a suite of New Zealand Public Benefit Entity (PBE) Standards using the IPSAS standards as a base.

Exposure Draft/ Discussion Paper	Impact/Summary
IPSASB ED47 Financial Statement Discussion and Analysis	The standard sets out the requirements for discussion and analysis of the financial statements that are to be included in the annual report. Broadly, the items to be covered are: an overview of the entity, information about the entity's objectives and strategies, an analysis of the entity's

	financial statements and information about the entity's risks and uncertainties. To some degree this information is present in our current annual report and no significant impact is expected from this standard.
IPSAS – Consultation paper – Work programme 2013-2014	New Zealand public sector entities appear to be well served by the proposed PBE standards. The suite of PBE standards, while being based on IPSASB are supplemented with existing IFRS, IAS and FRS standards. At this time there are no significant clarifications needed to guidance on reporting issues.

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:

- Package 2: Public Sector PBE Accounting Standards.
- ED 2012-4 Framework PBE Standards Mixed Groups.
- IASB draft of the forthcoming IFRS on general hedge accounting.
- Draft IFRIC Interpretation DI/2012/2 Put Options Written on Non-controlling Interests.
- IPSAS – Consultation Paper – Public Sector Combinations.

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) 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.