

Draft Submission on NZ PBE Exposure Drafts

XX December 2012

Chief Executive,
External Reporting Board,
PO Box 11250,
Manners Street Central,
Wellington 6142

Dear Sir/Madam

Submission on Public Sector PBE Accounting Standards Package

Thank you for the opportunity to comment on the Public Sector PBE Accounting Standards Package. Wellington City Council (the Council) is pleased to provide comments on these Exposure Drafts as well as the exposure draft which looks at mixed groups.

Our specific comments are outlined in the attached Appendix 1. We have not commented on all of the exposure drafts within the PBE but have included comments on several of the standards in the package under various subheadings within one submission document. In developing our comments we have considered the impact of the proposals on the Council as a reporting entity (for example, compliance costs and changes to information and reporting systems), and whether we believe the proposals are appropriate, from a standard setting perspective.

If you would like further clarification on the issues raised in our submission please don't hesitate to contact me.

Yours sincerely

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Wellington City Council

Appendix 1

1) Comments on ED PBE IPSAS 20 Related Party Disclosures

Definition of Key Management Personnel (KMP)

ED PBE IPSAS 20 appears to widen the definition of Key Management Personnel (KMP) compared to the definition in the current NZ IAS 24. The ED includes much more detail with respect to who is to be included as KMP, specifically with regards to “key advisors”. We feel that it may be difficult to determine whether a given individual or entity is a “key advisor” and at what point the key advisor can be considered to have significant influence.

We also note that the definition of a related party in the ED is different from the current NZ IAS 24 definition and more closely resembles the previous version of NZ IAS 24. This widens the definition of related parties to include entities which KMP have significant influence over (current NZ IAS 24 specifies control or joint control).

We are concerned that this change could lead to considerable difficulty in identifying who are actually KMP as well as an associated increase in the difficulty in collection and recording of the related party information.

We feel that the definition of KMP requires additional guidance especially around section 4(b)(ii) “any key advisors of that member”. We also have some concern over the change in the definition of a related party back to the previous version of NZ IAS 24 and whether a board appointment would constitute significant influence.

Disclosure requirements for Key Management Personnel (KMP)

The proposed disclosure requirements for the remuneration of KMP are much more specific than those currently reported on and there has also been a change in definition of KMP remuneration.

We are concerned that with the combined effect of the increased disclosure requirements and the more comprehensive definition for remuneration, added to the potential increase in the numbers of KMP having to be reported on there would be a significant impact on the compliance costs for public benefit entities that could potentially outweigh the benefits of disclosing this information.

Disclosure of transactions with related parties

ED PBE IPSAS 20 exempts all transactions between related parties that would occur within a normal supplier or client/recipient relationship on terms and conditions no more or less favourable than those which it is reasonable to expect the entity would have adopted if dealing with that individual or entity at arm’s length in the same circumstances.

We broadly agree with the exclusion of arm's length transactions, especially when the relationship is more "remote" for example where a Councillor is on the board of another entity. However, I note that there is always a level of public interest in the transactions with related parties, especially entities which we provide grant funding to and we would consider disclosing the amounts of grants paid even if these were considered "arm's length". If we assume that that annual operational grant funding is not considered to be "arm's length" (and would therefore still need to be disclosed under the ED), there is an added level of complexity in that we would need to disclose outstanding balances only in relation to non arm's length transactions which adds a level of complexity to the collection of the information for disclosure. Given the level of public interest, we would consider continuing to disclose all transactions with subsidiaries and associates even if they were considered to be at arm's length.

2) Comments on PBE IPSAS 23 Revenue from non-exchange transactions

Definition of a non-exchange transaction

In some cases the classification of revenue items into exchange (covered by NZ PBE IPSAS 9) and non-exchange categories is not clear. An example is the treatment of development contributions where a Professional Practices Technical Opinion issued by Audit New Zealand advises that development contributions should be treated as exchange revenue however there are some that dispute that development contributions are exchange revenue and it is possible, depending on how development contributions are treated and applied in practice, that they may lend themselves to being a non-exchange transaction.

Obviously there will always be a need to apply judgement to the classification between the two categories however we recommend that some additional guidance in the standard such as worked examples be included in the final standard.

3) Comments on PBE IPSAS 17 Property Plant and Equipment

Definition of a heritage asset

PBE IPSAS 17 neither defines heritage assets nor requires recognition of heritage assets. If heritage assets are recognised by a public sector entity, the IPSAS requires applying its disclosure requirements and allows but does not require applying its measurement requirements.

We consider that a definition of "heritage" asset is important for clarification and helps consistency in applying standards. FRS 30 offers the following definition, which we consider useful:

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A heritage asset is “A tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture”.

We believe that heritage assets are assets because of the service potential they provide to museums (as an example). The future economic benefits associated with artefacts for example are primarily in the form of service potential rather than cash flows.

Valuation of heritage assets

We agree with the Office of the Auditor General who has noted that the valuation of heritage assets is problematic because there is no ready market generally available to assess their value, and there may be no generally acceptable methods of valuation for certain heritage assets.

There is also undoubtedly some difficulty in assessing the useful lives for heritage assets which will impact depreciation. Some clarification on the application of this standard for heritage assets would be useful, perhaps with examples.

Impairment considerations

We do not believe that a fall in market prices is a relevant indicator for heritage assets where the main purpose for which the asset is being held and maintained (its contribution to knowledge and culture). We believe that the trigger for impairment of heritage assets should be when an asset has suffered physical deterioration or damage.

4) Comments on PBE IPSAS 7 Investments in Associates

Ownership based on equity structure

There are some changes relating to investments in associates, IPSAS 7, which are of some concern to us. The standard specifically refers to “a shareholding or other formal equity structure” being in place in order for an entity to be an associate. We are still investigating the impact of this but early indications would suggest that several of our current associates would potentially not be classified as associates under the new standard.

We believe that this could be an issue for local authorities and other PBEs where “ownership” may be based on provisions in a trust deed or other similar document rather than in a formal equity structure or shareholding. The issue become very complicated where, for example, we appoint 50% of the trustees but have no “ownership” (as there is no formal equity structure in place for a Trust) but we are the settler of the Trust and all assets revert back to us on wind up (to be used for the same purposes as under the trust deed). We believe that some additional guidance needs to be included to assist preparers of financial statements in determining whether or not an entity is an associate.

5) Comments on Exposure Draft ED 2012-4 Framework: PBE Standards - Mixed Groups

We believe that having different sets of standards applicable to different entities within a group is potentially going to cause some ongoing issues, especially with the expected divergence of the two sets of standards going forward. We recommend that a clear listing of differences between the NZ IFRS and PBE IPSAS standards should be maintained and updated as changes occur, this will help to reduce the compliance work required for the preparers of financial statements for the parents of mixed groups. We agree with the concept of requiring consistent accounting policies for “like transactions and other events in similar circumstances” but believe that additional guidance on how this would be applied in practice this as well as more clarity around materiality would also be useful.