


# Financial reporting update

Northern Client Update, May 2017

AUDIT NEW ZEALAND  
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# Agenda

- Improving communication in financial reports
- Accounting standard changes update



# Improving communication in financial reports

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# Objectives of financial reports

## PBE Conceptual framework:

- Objectives of financial reporting
  - To provide information useful to users for accountability and decision-making
- Primary users
  - Service recipients and their representatives and resource providers and their representatives

# Concerns about clarity of communication

- Volume of disclosure
- Too much immaterial disclosure
- Complexity and understandability of disclosure
- Duplication of information in notes and accounting policies
- Not enough information on key areas of judgement, or estimation
- Poor communication of key information

# Standard setters' response

## IASB disclosure initiative projects:

- IAS 1 amendments (aggregation and sub-totals, materiality, accounting policies, order of notes)
- Materiality practice statement and clarified materiality definition
- Principles of disclosure
- Standards level disclosure review

## NZ ASB

- Extension of IAS 1 **amendments to PBE IPSAS 1 (applies now)**
- Explanatory Guide: Materiality for Public Benefit Entities

# Definitions of materiality

- Information is material if its omission or misstatement could influence **the discharge of accountability** by the entity, or the **decisions that users make** on the basis of the entity's GPFRs prepared for that reporting period. Materiality depends on both the nature and amount of the item judged in the particular circumstances of each entity.  
(PBE conceptual framework)
- Information is material if omitting, misstating or **obscuring** it could reasonably be expected to **influence decisions** primary users of general purpose financial statements make on the basis of financial information about a specific reporting entity.  
(IASB Definition of materiality project)

# Evolving good practice

- Accounting policies
  - Integration with notes
  - Considering understandability
  - Which policies are significant?
- Indexes, headings, graphics, colour
- Improving and expanding important disclosures
  - Judgements, estimates, assumptions, sensitivities
- Reducing and removing immaterial disclosures
- Considering order of notes
- Significant matters, exec summary or or key developments note



# Good examples in NZ public sector

- Auckland Council
- Meridian Energy Ltd
- Air New Zealand
- Christchurch City Holdings Ltd
- Financial Markets Authority
- New Zealand Fire Service Commission

# Audit NZ response

- Acceptance of new approaches
- Model financial statements
- Expect Audit teams to engage on improving financial reporting

# Putting it into practice

- Treat as a project
- Senior management support
- Big Bang or incremental change
- Consider user needs
- Engage with stakeholders
  - Audit committee
- Engage with auditors early
  - Agree changes on pro-formas

# Concluding comments

- Focus on user needs and accountability
- Shift from compliance to communication
- Transparency remains key
- Unfortunately, complex transactions are likely to require complex disclosures
- Not a focus on reducing information, but on providing better quality and more relevant information

# Accounting standards changes update

# Standards update

- What's new for 30 June 2017?
- Some future changes of interest

# New or amended PBE standards for 30 June 2017

- No new PBE standards come into effect for 30 June 2017
- A number of standards have been amended e.g:

Amended	Effective date	Description of change
PBE IPSAS 1 (also NZ IAS 1)	1 Jan 2016	Disclosure initiative – as discussed earlier.
PBE IPSAS 17 (also NZ IAS 16)	1 Jan 2016	Clarifies the treatment of accumulated depreciation when an item of PPE is revalued.
PBE IPSAS 20	1 Jan 2016	Clarifies that an entity providing KMP services to the reporting entity (management entity) is a related party of the reporting entity. Requires disclosure of the compensation to the management entity for the provision of key management personnel services.
PBE IPSAS 23	1 Jan 2016	Permits an entity not to recognise donated goods that meet the definition of inventories if it is not practicable to measure reliably the fair value of those goods at the date of acquisition.

# Amended PBE standards for 30 June 2018

Amended	Effective date	Description of change
PBE IPSAS 17 (also NZ IAS 16, but effective 1 Jan 2016)	1 Jan 2017	Changes the scope of PBE IPSAS 17 to include biological assets that meet the definition of bearer plants (e.g. fruit trees).
PBE IPSAS 32	1 Jan 2017	Clarifies that service concession assets should be grouped with similar assets as a class of assets for the purpose of subsequent measurement, consistently with PBE IPSAS 17, and that dissimilar service concession assets cannot be accounted for as a class of assets.



# Impairment of revalued property

- Revalued PPE scoped into PBE impairment accounting standards (PBE IPSAS 21 and PBE IPSAS 26)
- PPE that is impaired can be impairment tested without revaluing entire asset class
- Effective from 31 December 2019 balance dates onwards
  - Early adoption is permitted

# Future changes that could be significant - PBE IFRS 9 *Financial Instruments*

- For-profits must apply a new financial instruments (FI) standard, NZ IFRS 9, from 31 December 2018 year ends
- Potential for significant “mixed group” issues when for-profits and PBEs apply different FI standards
- PBE IFRS 9 is a new FI standard for PBEs, based on NZ IFRS 9
- Mandatory effective date of 30 June 2021 , this provides PBEs with flexibility to early adopt to minimise mixed group issues
- New:
  - Classification requirements for financial assets
  - Impairment model
  - Hedge accounting requirements

# Future changes that could be significant - PBE IFRS 9 *Financial Instruments*

Some key implications:

- Share investments not held for trading can be designated at fair value through other comprehensive revenue and expense (FVTOCRE).
  - If designated at FVTOCRE, all fair value movements go through reserves, including impairment, and no realisation of gains or losses on disposal.
- Loans and receivables can only be measured at amortised cost if held with objective to collect contractual cash flows that are solely payments of principal and interest.
  - Unclear whether concessionary loans with contingent repayment features qualify for amortised cost accounting. If not, measured at fair value with movements in surplus/deficit.
    - Market-based discount rates required at balance date.
    - Expected losses included in estimating fair value.
    - Financial performance volatility.

# Future changes that could be significant - PBE

## *IFRS 9 Financial Instruments*

- Impairment of loans and receivables is now based on an “expected loss model”; previously unimpaired assets could now require impairment provisions
  - More complex
  - How significant could adjustments be?
  - Systems and processes to estimate these?
- Financial Statements of Government early adoption?

# Future changes that could be significant

## – Leases

- For-profits must apply a new lease standard, NZ IFRS 16, from 31 December 2019 year ends
- NZ IFRS 16 requires lessees to recognise most leases on the balance sheet
  - Lessor accounting largely unchanged from NZ IAS 17 *Leases*
- No NZ IFRS 16 PBE equivalent under development in NZ, but..
  - IPSASB is developing an exposure draft on leases:
    - Looking likely to bring lessees leases on balance sheet
    - Project is also considering “concessionary leases”
      - For example, peppercorn or nominal rental payments

# Future changes that could be significant

## – Revenue and non-exchange expenses

- For-profits must apply a new revenue standard, NZ IFRS 15, from 31 December 2018 year ends. 5 step revenue recognition model:
  - Identify contract(s) with customer
  - Identify performance obligation(s)
  - Determine the transaction price
  - Allocate transaction price to performance obligations
  - Recognise revenue when (or as) the entity satisfies performance obligations
- No IFRS 15 PBE equivalent under development in NZ, but...
  - IPSASB is developing a consultation paper on:
    - Revenue accounting by PBEs
    - Accounting for non-exchange expenses, for example, grants

# Questions

