Model financial statements: Tutuki Tertiary Institute – Commentary

Commentary for 31 December 2024 reporting by tertiary education institutions

The most currently available model financial statements for Tutuki Tertiary Institute are for the year ended 31 December 2023.

Other than a limited number of disclosures, which we discuss below, the 31 December 2023 model financial statements remain relevant for the financial statements of tertiary education institutions (TEIs) for the year ended 31 December 2024.

In this commentary, we discuss:

- Pay equity claims;
- Disclosure of Fees for Audit Firms' Services;
- The Audit of Service Performance Information NZ AS 1 (revised) – The measurement bases or evaluation methods are available to intended users;
- Reporting on greenhouse gas emissions;
- Valuation issues – Infrastructure assets;
- Changes to PBE reporting tiers and PBE Tier 3 and 4 standards; and
- Updates to model financial statement disclosures.

Pay equity claims

We are aware that, in September 2022, universities received two pay equity claims from TEU, PSA, and TIASA covering library, and clerical and administrative staff.

Universities need to consider the appropriate accounting treatment for these claims as at 31 December 2024, given the information available to them.

We expect each university to determine whether it has a present obligation for the claims and, if so, whether it can make a sufficiently reliable estimate of the amount to settle this obligation. We also expect universities to disclose information about the judgements they have made in this determination.

As a reminder, paragraph 22 of PBE IPSAS 19 *Provisions, Contingent Liabilities, and Contingent Assets* requires a provision to be recognised when:

a an entity has a present obligation (legal or constructive) as a result of a past event;

b it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and

c a reliable estimate can be made of the amount of the obligation.

Paragraph 98 of the standard includes some of the disclosure requirements to be included when a provision is recognised.

If these conditions are not met, no provision shall be recognised. However, if the university determines that it has a contingent liability for these claims as at 31 December 2024, its financial statements should include the contingent liability disclosures set out in paragraph 100 of the standard.

We suggest that universities engage with their auditors early on the accounting they propose for the pay equity claims. We anticipate that universities' accounting treatment will be generally consistent. If your university's accounting treatment differs from others in the sector, your auditor will need to understand whether there are valid reasons for this.

Disclosure of fees for audit firms' services (Amendment to PBE IPSAS 1)

In the 31 December 2023 model financial statements, the standards issued but not yet effective and not early adopted disclosure noted the amendment to PBE IPSAS 1 for fees for audit firm services. This amendment is now effective, and TEIs will be required to disclose more information about the audit fees that that they have expensed. They must also provide comparative information for the year ended 31 December 2023.

TEIs applying the Tier 1 accounting framework need to disclose the fees incurred from their audit firms using specified categories. These are:

- Audit or review of the financial reports.[1]
- Each other type of service that the audit (or review) firm provided during the reporting period, separately disclosed using the categories:
  - audit or review related services;
  - other assurance services and other agreed-upon procedure engagements;
  - taxation services; and
  - other services.

[1] Fees for the audit of the financial reports also include the service performance information that TEIs are required to report and have audited in their annual reports.

As well as disclosing the quantum of the fee for each category, TEIs are also required to disclose the nature of the different services performed. The amendments to PBE IPSAS 1 helpfully include a flowchart in paragraph 116.38 and an illustrative disclosure in Appendix D. The flowchart describes the disclosure requirements for each category.

Although the standard contains comprehensive guidance, categorising certain services could involve judgement. If you are unclear about which category to use, you should consult with your auditor.

The standard now also clarifies that, for the purposes of these disclosures, the fees for services received from the audit or review firm are based on the amount of fees expensed during the reporting period.[2] This includes any disbursements incurred in connection with the services. Common disbursements include travel or accommodation costs and the costs of the auditor's use of independent subject matter experts.

The disclosure requirements are reduced for Tier 2 entities. However, those entities are still required to disclose the total fee for the audit or review of the financial statements and, separately, the total fee for all other services, along with a general description of these services. Previously, Tier 2 PBEs were not required to disclose audit fees.

The Appendix sets out an example disclosure.

The Audit of Service Performance Information NZ AS 1 (revised) – the measurement bases or evaluation methods are available to intended users

With the introduction of NZ AS 1 (revised) for the 31 December 2024 audits, there are new requirements for the auditor to assess the appropriateness of the "measurement bases or evaluation methods" used for performance measures. Auditors are also required to conclude whether the measurement bases or evaluation methods are available to intended users. The standard includes the following guidance on applying these new requirements:

The measurement bases or evaluation methods used to assess a performance measure and/or description need to be made available to intended users to allow them to understand how the underlying service performance information has been measured or evaluated.

The measurement bases or evaluation methods can be made available to the intended users in one or more of the following ways:

a *Publicly, for example, readily available documents such as a published external assessment framework on a website.*

b *Through inclusion in a clear manner in the presentation of the service performance information, in particular for entity-developed measurement bases or evaluation methods.*

c *Through inclusion in a clear manner in the description of the performance measure and/or description itself, for example, number of meals delivered.*

[2] In limited circumstances, some fees received from the audit or review firm might be capitalised, such as fees for certain services performed in relation to capital projects. We expect that this would be rare in the TEI sector.

d *By general understanding, for example, the method of measuring time in hours and minutes. The auditor may consider whether it is clear what the time is measuring. For example, an entity may measure its response time to an outage but will need to be clear as to whether the response time is measured from when a call is lodged, or measures the time taken to address a fault from when someone arrives to address the fault."*

It is important that preparers include sufficient disclosure in their service performance information to ensure that intended users can access the information they need to understand how the TEI has measured or evaluated its service performance information.

For the Educational Performance Indicators used by the sector, the measurement bases are publicly available in the methodology documents published on the Tertiary Education Commission's website. TEIs should refer to these documents in their service performance information. For entity-specific performance measures, TEIs should review their disclosures to ensure that they disclose sufficient information to allow users to understand the measurement bases.

Reporting on greenhouse gas emissions

Several TEIs are choosing to report a measure of their greenhouse gas emissions in their service performance information. Because calculating and auditing emissions information can need substantial judgement and effort, it is important to engage with your auditor early when you include such a measure for the first time or when there is substantial change in what you intend to report.

TEIs should ensure that their reporting of their achievements and activities in relation to their environmental impacts, including their greenhouse gas emissions, is unbiased and balanced. It is important to avoid any "greenwashing" of your achievements or activities in this reporting, whether in the audited service performance information or in other information in the annual report.

TEIs might find the following resources useful when considering how to report on greenhouse gas emissions:

Climate Change Reporting – The risks of greenwashing – In this recorded session, Audit New Zealand's Associate Director Technical, Amy Hamilton, discusses why greenwashing is a risk to trust and confidence, and why interest in climate-related disclosures is on the rise.

Climate reporting and the need to avoid greenwashing — Office of the Auditor-General New Zealand – In this blog post, Auditor-General John Ryan reflects on the high public interest in climate reporting and the need for public organisations to maintain integrity in meeting new climate reporting requirements and to avoid "greenwashing".

Valuation issues – Infrastructure assets

During the 2023 audits, we became aware that several TEIs might not have complete information about their underground infrastructure assets, such as pipes or conduits. It was not clear from some valuation reports whether the valuer had specifically considered these underground infrastructure assets.

In some instances, the valuer had limited a valuation to include only above-ground infrastructure and underground infrastructure within a two-metre boundary of the building. They had excluded underground infrastructure outside of this boundary.

We recommend that, if your TEI has a separate infrastructure assets class, you be clear on the boundary between the building asset class and the infrastructure asset class. We also recommend that you make sure that the valuers are aware of the distinction to minimise the risk that assets are incorrectly double counted or omitted.

Changes to PBE reporting tiers and PBE Tier 3 and 4 standards

The following changes are unlikely to affect a TEI's own reporting but might be relevant to related entities in a TEI group that have separate reporting and audit requirements.

Recent changes have been made to the PBE-tier size criteria in XRB A1 *Application of the Accounting Standards.* An entity with total expenses less than $5 million can now elect to report under Tier 3 PBE standards (increased from $2 million), while an entity with total expenses of less than $33 million can elect to report under Tier 2 PBE standards (increased from $30 million).[3] These changes can be applied from periods ending on or after 28 March 2024.

In addition, new Tier 3 and 4 standards have been introduced and are mandatory for accounting periods beginning from 1 April 2024. Early adoption is permitted for periods ending after the standards took effect on 15 June 2023.

Updates to model financial statement disclosures

The following table notes the updates to disclosures in the 2023 model financial statements that TEIs should consider when they prepare their 31 December 2024 financial statements.

The green background indicates the disclosure concessions available under the reduced disclosure regime (Tier 2).

2023 model section	Discussion
Note 1, page 17	**New amendment applied** Disclosure of Fees for Audit Firms' Services amendments to PBE IPSAS 1 has been adopted in the preparation of these financial statements. The amendment changes the required disclosures for fees relating to services provided by the audit or review provider, including a requirement to disaggregate the fees into specified categories. This new disclosure is included in Note XX.

[3] PBE entities that have public accountability, as defined in XRB A1, must report in accordance with Tier 1 PBE standards.

2023 model section	Discussion
Note 1, page 18 Updated to remove the audit fee disclosure now applied and to reflect new standards that have been approved.	**Standards issued and not yet effective and not early adopted** Standards and amendments issued but not yet effective that have not been early adopted and relevant to the Institute are: ***2024 Omnibus Amendments to PBE Standards (amendments to PBE IPSAS 1)***[4] This amendment clarifies the principles for classifying a liability as current or non-current. The amendment is effective for the year ended 31 December 2026. *The Institute has not yet assessed in detail the impact of these amendments/These amendments are not expected to have a significant impact.* ***PBE IFRS 17: Insurance contracts*** PBE IFRS 17 establishes principles for the recognition, measurement, presentation, and disclosure of insurance contracts and will replace PBE IFRS 4. This standard is effective for the year ended 31 December 2026. *The Institute has not yet assessed in detail the impact of this standard/This standard is not expected to have a significant impact.*
Note 5, page 24	**Refer to new audit fee disclosure.**

[4] Although this standard is not mandatory until 31 December 2026, a TEI can elect to early adopt it for its 31 December 2024 financial statements.

Appendix: Example audit fee disclosure

In this Appendix, we provide an example disclosure for a Tier 1 TEI. We have used the common scenario where the financial statement's auditor also performs an assurance engagement for the TEI's PBRF return to the Tertiary Education Commission.

This example assumes that the audit firm has not provided any services in the categories "other assurance services and other agreed-upon procedure engagements", "taxation services", or "other services". When no such services are provided, these categories do not need to be included in the disclosure.

Consistent with the requirements of paragraphs 116.22 and 116.22A of PBE IPSAS 1, the TEI has disclosed the nature of each type of service classified as an audit or review related service and categorised this by whether it is an assurance engagement, an agreed-upon procedure, or a non-assurance engagement.

Fees incurred for services provided by our audit firm[5]

The TEI group's financial statements and service performance for the year ended 31 December 2024 (the "financial report") are audited by Audit New Zealand on behalf of the Auditor-General.

During the year, the following fees were incurred for services provided by our audit firm.

	2024 **$**	**2023** **$**
Audit of the financial report[6]	xx	xx
Audit or review related services Assurance engagement in relation to the Performance Based Research Funding external research income (ERI) annual return.[7]	xx	xx
Total fees incurred for services provided by the audit firm	xx	xx

[5] PBE IPSAS 116.5: For public sector entities, the "audit or review" firm will be the Controller and Auditor-General. When applying the requirements in paragraphs 116.3 and RDR 116.3, the fees incurred will include fees for services performed by an audit or review firm that completes a financial report audit or review engagement on behalf of the Controller and Auditor-General.

[6] PBE IPSAS 116.16: The total fees under this category also include, when consolidated financial reports are presented, any fees incurred for the audit or review of the entity's subsidiaries' financial information. The total fees disclosed under this category will include any additional fees incurred as a result of issuing an audit opinion or review conclusion on the financial reports of the subsidiary entities.

[7] In our view, the assurance engagement for the annual ERI return best meets the definition of "audit or review related services" in paragraph 116.19. This is because these services are closely related to the work performed as part of the financial statements audit, and it is expected that the entity's financial statement's auditor will carry them out.

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