

# Guidance Material – Setting up an NZ IFRS conversion project



# Agenda



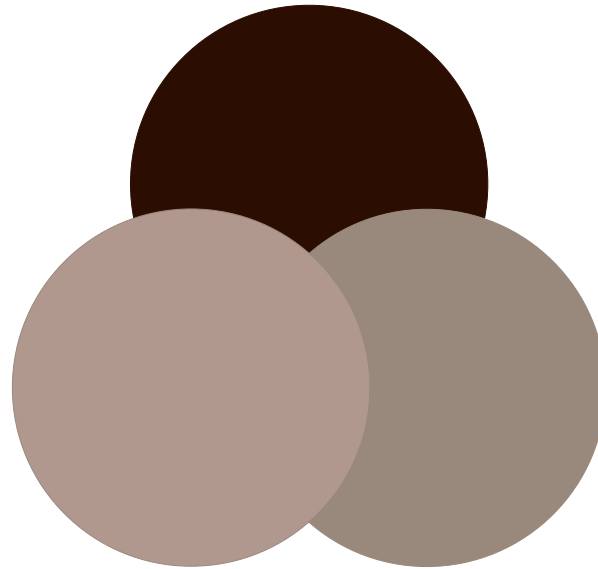
The guidance material suggests that, when converting to NZ IFRS, the following need to be addressed:

- Project management issues
- Accounting issues
- Stakeholder issues





## Accounting issues



## Stakeholder issues

- Steering Committee
- Project communication

- Analysis of NZ IFRS and NZ GAAP differences
- Self-evaluation tool
- Component Evaluations
- Workstreams
- Accounting policy choices impact analysis
- Expert advice

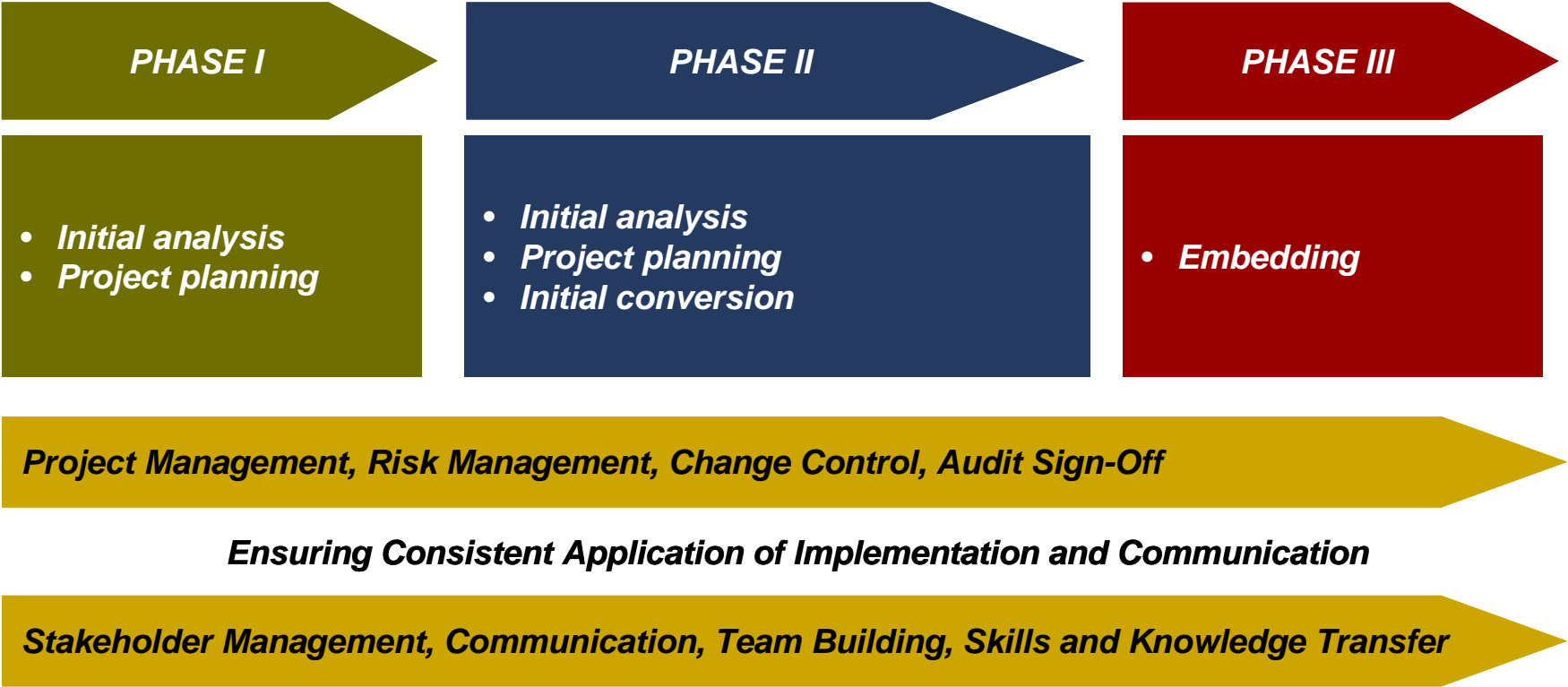
## Project management issues

- Project governance
- Project schedules
- Risk register
- Expert advice

# Project management



## TRANSITION/IFRS™

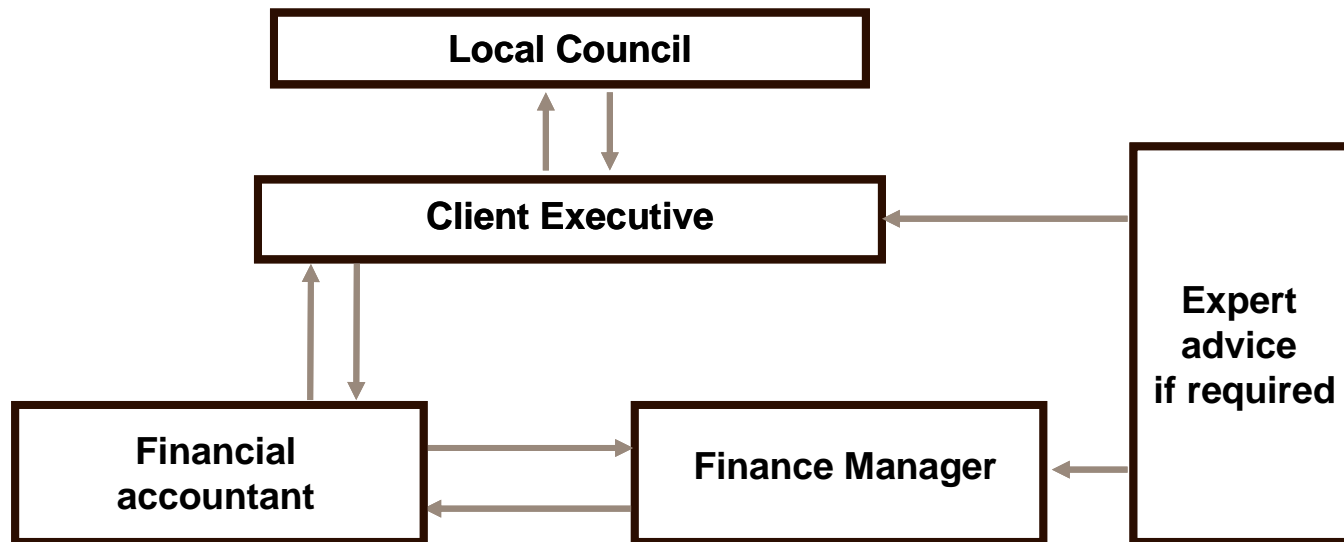




# Project governance



# Project governance - smaller local authorities



- Some tasks can be fulfilled by one person only
- Smaller local authorities can set up a joint project with the participation of a number of local authorities<sup>20</sup>

# Workstreams and component evaluation



## *Workstreams:*

To identify accounting policy recommendations, resolve issues and consider audit issues; work shops can be set up with the participation of qualified and experienced people

## *Component evaluation:*

Each of the significant elements of the balance sheet and income statement will need to be addressed in a formal, structured manner

# Analysis of NZ IFRS and NZ GAAP differences



A comparison of IFRS and NZ IFRS against NZ GAAP is set out to help local authorities to gain a broad understanding of the key differences between IFRS, NZ IFRS and NZ GAAP

<i>Subject</i>	<i>IFRS (italicised comments reflect NZ IFRS where different to IFRS)</i>	<i>Current NZ GAAP</i>
<b>ASSETS</b>		
<i>Property, plant and equipment</i>	<p>Use historical cost or revalued amounts. When valuations are used, frequent valuations of entire classes of assets required.</p> <p>Revaluation increments and decrements are accounted for on an asset by asset basis. <i>(Public benefit entities can still account for assets on a class by class basis.)</i></p> <p><i>NZ requirement for an independent valuer and disclosure of details of valuation carried forward.</i></p> <p><u><i>Public benefit entities</i></u>  <i>Donated/subsidised items recognised at fair value.</i>  <i>Depreciated replacement cost acceptable as fair value if market values not determinable.</i></p>	<p>Similar to IFRS. Revaluation period not to exceed 5 years. Revaluation increments and decrements are accounted for on a class of assets basis. Donated and subsidised items recognised at fair value.</p>

# Self-evaluation tool



A self evaluation checklist facilitates the collection and review of potential issues where changes may be required to current accounting

<i>Subject</i>	<i>Question</i>	<i>Answer</i>	<i>Follow-up required</i>
<b>ASSETS</b>			
<i>Property, plant and equipment</i>	<p>Are PP&amp;E measured at historical cost?                      Are PP&amp;E measured at revalued amounts?                      Revalued amounts method:                      Are entire classes of assets revalued?                      Are revaluations conducted frequently?</p> <p><b>Public benefit entities</b>  <i>Is donated/subsidised PP&amp;E recognised at fair value?</i>  <i>Is LRARA depreciation method excluded from depreciation policy?</i></p>		

# Analysis of NZ IFRS and NZ GAAP differences



<i>Subject</i>	<i>IFRS (italicised comments reflect NZ IFRS where different to IFRS)</i>	<i>Current NZ GAAP</i>
<b>ASSETS</b>		
<i>Impairment of assets</i>	<p>Assess annually for indications of impairment. If impairment indicated, write down assets to recoverable amount (higher of net selling price, and value in use based on discounted cash flows). Assets that do not individually generate cash flows (e.g. goodwill) must be assessed within a group of assets that together generate cash flows. Reversals of impairment losses (other than goodwill) are permitted.</p> <p><u>Public benefit entities:</u>  <i>Assets whose future economic benefits are not directly related to their ability to generate net cash inflows are not subject to the standard on impairment of assets.</i></p>	Similar to IFRS.

# Self-evaluation tool



<i>Subject</i>	<i>Question</i>	<i>Answer</i>	<i>Follow-up required</i>
<b>ASSETS</b>			
<i>Impairment of assets</i>	<p>Are assets assessed annually for indications of impairment?            Are assets impaired if impairment is indicated?            Are assets impaired to their recoverable amount (higher of net selling price, and value in use)?            Have Cash Generating Units been identified for assets that do not individually generate cash flows?</p> <p><b>Public benefit entity exemption</b>  <i>Assets whose future economic benefits are not directly related to their ability to generate net cash inflows are not subject to IAS 36.</i></p>		

# Analysis of NZ IFRS and NZ GAAP differences



<i>Subject</i>	<i>IFRS (italicised comments reflect NZ IFRS where different to IFRS)</i>	<i>Current NZ GAAP</i>
<b>LIABILITIES</b>		
Deferred income taxes –general approach	Use full provision method (some exceptions) driven by balance sheet temporary differences. Recognise deferred tax assets if recovery is probable. <i>Disclose balances and movements in imputation credits and dividend withholding payment credits.</i>	Either partial or comprehensive method using timing differences. Recognise deferred tax assets if recovery is virtually certain.
Deferred income taxes – main Exceptions	Non-deductible goodwill and temporary differences on initial recognition of assets and liabilities which do not impact accounting or taxable profit.	Permanent differences, including non-deductible goodwill and non-assessable gains on revaluation of assets.

# Self-evaluation tool



<i>Subject</i>	<i>Question</i>	<i>Answer</i>	<i>Follow-up required</i>
<b>LIABILITIES</b>			
<i>Deferred income taxes - general approach. NZ IAS 12</i>	Is deferred tax recognised when recovery is probable as opposed to virtually certain?		
<i>Deferred income taxes - main exceptions. NZ IAS 12</i>	Deferred tax on goodwill should not be recognised. Is this reflected in your current accounting policy?  Deferred tax should not be recognised in relation to initial recognition of assets and liabilities. Is this reflected in your current accounting policy?		

# Stakeholder issues



Stakeholder	Needs and expectations	Level of influence	Priority	Communication Method
<b>INTERNAL</b>				
<b>Council/Executive Management</b>	Detailed understanding of all changes to enable informed decisions and ability to communicate to shareholders / media, various oversight and regulatory bodies, etc	<b>Strong</b>	<b>High</b>	Presentations, workshops, Q&A, updates from Steering Committee, Board reports
<b>Senior management</b>	Detailed understanding of all changes to enable informed decisions and ability to communicate to the Audit Committee and the Council.	<b>Strong</b>	<b>High</b>	Integral involvement in conversion teams and Steering Committee.
<b>Internal Treasury Department</b>	High involvement in all work streams that impact treasury to limit the impact of any changes to treasury policy.	<b>Strong</b>	<b>High</b>	Integral involvement in conversion teams, and Steering Committee
<b>EXTERNAL</b>				
<b>Crown - as regulator</b>	Detailed understanding of the impact on reported earnings	<b>Medium</b>	<b>Medium</b>	Presentations, meetings, newsletters, media
<b>Valuation services/lenders</b>	Understanding of impacts due to the conversion to IFRS, particularly changes in equity. Understanding of rationale for decisions.	<b>Strong</b>	<b>High</b>	Direct communication, brochures, road shows
<b>Ratepayers</b>	Understanding of changes that results in volatility in earnings.	<b>Medium</b>	<b>Medium</b>	LTCCP, Annual Report, media

# Questions

