

SOLGM 2004 INTERNATIONAL AND FINANCIAL REPORTING (IFRS) AND ANNUAL PLANNING WORKSHOPS

NZ IFRS QUESTIONS AND SUGGESTED ANSWERS

The following are the NZ IFRS questions asked at the SOLGM seminars.

	Question	Answer
The big questions		
	Why are we adopting international financial standards when local government has no overseas shareholders and investors?	<p>The Accounting Standards Review Board (ASRB) has made this decision based on a range of factors, including:</p> <ul style="list-style-type: none"> - In one sense the ASRB had little choice once Australia decided to adopt IFRS. - Standard setters saw that it was good for our profit-oriented entities to follow IFRS in an increasingly global economy. - We have a history of sector neutral standards and standard setters saw that it was good to continue to just have one set of standards in NZ. Hence NZ IFRS applying to both (profit oriented) entities and PBEs (including local authorities).
	How many other countries have adopted IFRS?	<p>Currently 92 countries have adopted IFRS.</p> <p>However, most of these countries are just adopting IFRS for their listed entities.</p> <p>Australia and NZ are the only countries adopting IFRS as the basis for standards applying to <u>all</u> reporting entities – because we are the only countries to have one set of standards for all reporting entities.</p>
	What if we refuse to convert to NZ IFRS?	<p>Most of the existing NZ standards will be replaced by NZ IFRS which will be GAAP in NZ. The consequences of not complying with NZ GAAP are the same as they are currently (i.e. if it is material your audit opinion will be qualified).</p>
	What happens if we miss the deadline for conversion?	<p>If you miss the final deadline (i.e., 30 June 2008) prima facie you will have a problem. The LGA 2002 requires compliance with NZ GAAP. NZ GAAP will require compliance with NZ IFRS as we move from the current set of standards to the new set (NZ IFRS).</p>
	<p>Do you see 5 audits in the next 2 years?</p> <p>Ie, 2005 NZ FRS 2005 NZ IFRS 2006 NZ FRS 2006 NZ IFRS 2007 NZ IFRS</p>	<p>Yes. 2005 Annual report, 2006 Annual report, 2007 Annual report (including restated 05/06 comparatives), 2006 LTCCP and 1/7/05 restated opening balance sheet.</p> <p>(It is possible that several of these will be audited at the same time e.g. 1/7/05 opening balance sheet could be audited (initially) shortly after or at the same time as the 30/6/05 audit.)</p> <p>However, it should be noted that the opening balance sheet will only be able to be finalised closer to 30/6/07 as the same policies that are applied to the 30/6/07 financial statements must be applied to the opening balance sheet.</p>

	What does the panel think the major issues with NZ IFRS will be in Local Government?	<ul style="list-style-type: none"> - Financial instruments - Deferred tax - Fair value accounting for investments - Biological assets (e.g. forestry) - Increased disclosure - Co-ordination with subsidiaries and consolidation of mixed groups
	How much difference will submissions make in the light of the International basis of the standards?	If the standards are at odds with international best practice for the public sector or do not make sense or result in misleading accounting for the public sector, it is important to make submissions as the NZ standard setter will need to make changes to the international standard to ensure it can be applied by public sector entities.
	What are the key areas for accounting options under the new standards?	<ul style="list-style-type: none"> -NZ IFRS 1 - Borrowing costs -Financial instruments measurement -Hedge accounting
	How do you get people feeling good and positive about the impending changes?	Through appropriate training people should have increasing comfort about the standards. Each Council can then assess what NZ IFRS means for them.
	Can we change any things as we go, e.g. disclosures?	All of the changes need to occur at transition 1/7/05 for early adopters. However, many of the disclosures required by NZ IFRS will not be needed until the 2007 Annual report. (You can add additional disclosures before the 2007 report if you wish.)
	What are the implications for a Council that doesn't adopt until 2008?	From an LTCCP perspective you will still have to estimate the impact of the move to NZ IFRS and the LTCCP will then contain a mixed set of accounting policies: <ul style="list-style-type: none"> - 1 year current GAAP - 9 years NZ IFRS.
	Will SOLGM advise Statistics NZ of the impending changes to accounting standards?	All Government departments should be well aware of the changes.
Materiality	What is the "international" definition of materiality?	The concept has not changed from the current NZ definition. See 'New Zealand Framework' which will replace the Statement of Concepts.
Stakeholders		
Business case for NZ IFRS	Where is there a business case showing my Chief Executive that there is a "Value Add" for their ratepayers (shareholders)?	There is no business case. The benefit is a more complete set of standards for New Zealand as a whole with the retention of 1 set of global standards that will continue to be improved to reflect best practice.
	How do I tell my Chief Executive that NZ IFRS will give him the REAL financial state of his organisation? Won't the CEO be left with the impression that the previous audit reports - stating a "true and fair" view - weren't really accurate or true!!	Accounting standards have been changing for the past 20 years, it is just that the move to NZ IFRS represents a lot of change in a short time. Compliance with GAAP = true and fair view.

Banks and lenders	<p>What are banks (and lenders) views of potential breaches of covenants?</p> <p>Is there a process to work through the revised covenants?</p>	<p>During the transition period banks may decide to take a more lenient approach as NZ IFRS affects all reporting entities. However, it is important to keep your bank fully briefed about your potential changes.</p> <p>Once you have estimated the NZ IFRS impacts on your organisation we suggest you discuss this matter with your relationship manager.</p>
Miscellaneous questions		
	<p>What about treatment of internal charges and internal borrowing?</p>	<p>NZ IFRS should not affect internal transactions unless you want them to for management purposes.</p>
	<p>Are there any significant implications on items like debtors, creditors, etc?</p>	<p>No change to these more routine financial instruments but NZ IAS 39 does contain specific requirements re provisions for impairment.</p>
Training and guidance		
	<p>Could there be regional workshops on specific NZ IFRS issues with OAG/Audit NZ participation where we complete practical exercises?</p>	<p>We suggest that you work in regional groupings of Councils. If there are unanswered questions these can be forwarded through to the SOLGM FMWP and/or your auditor.</p>
	<p>What sort of training will be available to local authorities?</p> <p>What sort of training is going to happen through SOLGM, Audit, PWC, and ICANZ?</p>	<p>The November/December 2004 seminars were the main SOLGM initiative (assisted by the OAG).</p> <p>Obviously you should attend other training initiatives if they address issues relevant to your situation and you still need to learn more – but firstly consider how to resolve issues by working collaboratively in the sector.</p>
	<p>Is there anywhere we can go to get an overview of each NZ IFRS?</p>	<p>The submissions to the ASRB that were prepared by the FRSB are on the ICANZ webpage. These give a good overview of the key differences between current NZ GAAP and NZ IFRS.</p> <p>Key impact areas are also covered in the seminar guidance material.</p>
	<p>What help is there for small local authorities?</p> <p>Could SOLGM put together a checklist/stocktake for smaller local authorities to assess whether they have issues in various parts of the NZ IFRS?</p>	<p>The purpose of the seminars was to give all local authorities (including small ones) sufficient information about the key impact areas.</p> <p>This will be enhanced through additional information being made available:</p> <ul style="list-style-type: none"> -On the SOLGM website -Via <i>NZIFRSconversion</i> listserve, and -Through regional cooperation between SOLGM members.

<i>SOLGM NZ IFRS Guide</i>	Is Appendix 4 of the Guide a full analysis of all standards?	It is a high level overview. Refer to the standards for the full detail.
External assistance		
	Which accounting firms do you recommend?	That's your choice. Be clear as to what assistance you need, and consider the cost/benefits of getting "advisers" to assist. In very specialised areas it may well be advisable to take advice e.g. deferred tax or complex financial instruments.
LGA 2002		
	The balanced budget requirement in LGA 2002 seems to be at variance with volatility expected with NZ IFRS adoption.	The balanced budget test is based on prospective financial information (e.g. LTCCPs). Any volatility introduced by NZ IFRS is likely to affect reporting of actual results rather than budgeted results, i.e. it is difficult to budget for such volatility.
	Roading has had big upward revaluations in recent years, therefore depreciation goes up – is this variance an amendment to the LTCCP?	Generally an asset revaluation should not give rise to an amended LTCCP.
	In years 2&3 of the LTCCP what budget numbers should be put in the annual report?	Section 10 of the LGA details what the Annual report should contain. It includes elements of reporting against both the LTCCP and Annual Plan.
LG and GAAP		
	What is the likelihood of having separate standards for local government?	Very low likelihood. New Zealand has a long history of having one set of standards that apply to both the public and private sectors. The aim of the ASRB and the FRSB is for this to continue in the future.
	Will there be guidance of what NZ IFRS will be applicable to small/medium sized Councils?	All local authorities (large or small) have to comply with NZ IFRS.
<i>Date of adoption</i>	Does the adoption of IFRS relate to reporting (i.e. Annual reports) or planning (i.e. LTCCP)?	The date of the adoption is driven by the date of the Annual report but very much linked to the planning side as all councils have to plan using the policies they will use in reporting for that year. 30 June 2007 is recommended for reporting purposes.
<i>Summary of differences</i>	Who has done a comparison between NZ GAAP and NZ IFRS as it affects LG? And how do we get access to this?	This was the idea of the Christchurch City Council Pilot. For a table of differences refer to Appendix 4 of the Guidance Material. Also you should refer to the submissions from the FRSB to the ASRB on the ICANZ website.

Systems		
	Is SOLGM going to provide guidance on what the back room systems should look like?	No. This is something that each local authority needs to assess for itself. Once again, collaboration with other similar local authorities may be useful.
Reporting	Are you going to put out a model annual report? If so, when?	A revised NZ IFRS based Te Motu District Council model annual report is likely to be produced late 2005/early 2006.
	Does materiality affect the disclosures e.g. differential reporting current exemptions?	Materiality will always apply. Some disclosures are material because of nature not amount – for example related party transaction disclosures.
	Will the audit opinion change?	No, the auditors will still need to form an opinion on compliance with GAAP.
	Requirement to comply with all disclosures and treatment in each IFRS or else qualification?	The expectation is that all disclosure requirements are complied with, subject to the appropriate application of the materiality concept. Disclosing what you don't comply with does not fix the issue of non-compliance. The FRSB has released an ED designed to retain a NZ differential reporting regime to apply under NZ IFRS. This is likely to be an interim measure as the IASB have a project on small/medium enterprises and the Ministry of Economic Development is also considering the financial reporting framework in NZ.
	How can the differences in treatments be highlighted effectively?	NZ IFRS 1 requires a series of disclosures. Good examples of disclosures: -Fletcher Building -PWC webpage. -Watercare Services -Wellington City Council in its 2004 annual report made some initial disclosures regarding the possible impact of NZ IFRS. -ED 96 encourages local authorities to disclose information about NZ IFRS. (Issuers are required to make such disclosures.)
Fair value		
Definition	Is there a definition of fair value: for PPE, investments, etc? Any change to current definition?	Yes - refer to the applicable standards. No, the concept of fair value is the same.
External valuations?	Does the requirement to bring in assets at fair value require external valuations at the balance dates – comparatives opening (2005), opening (2006), reporting (2007)?	The value for opening balance sheets should be based on existing revaluation cycles. But all figures need to be reliable and not materially different from fair value (as is the case for each reporting period under our current FRS-3).

<i>What and when?</i>	<p>Which fair values have to be done and when?</p> <p>Which assets need to be changed from historical cost to fair value?</p>	<p>The compulsory ones are:</p> <ul style="list-style-type: none"> -Investment properties -Biological assets -Derivatives (e.g. swaps) -Certain categories of financial assets and liabilities <p>The standards include details of the frequency but generally these need to be revalued annually.</p> <p>A choice still exists for local authorities in relation to property, plant and equipment – although adopting a revaluation approach is consistent with the principles of the LGA 2002.</p> <p>In addition all assets & liabilities acquired in a business combination need to be recognised at fair value</p>
<i>Logistics</i>	How can valuations be physically done in the timeframes?	You need to plan any requirements for external valuations into your NZ IFRS project timetable including liaison with valuers and instructing them on your requirements.
LTCCP		
	What are the implications if NZ IFRS is not adopted until 2008, particularly on LTCCP?	You will still need to work out the impact of the change and build into year 2 of the LTCCP.
	<p>For 2006/07 LTCCP: some Councils usually also include previous year (i.e. 2005/06) figures.</p> <p>Will we have to restate these comparative budget figures?</p>	Comparatives are not required but if you choose to include them they should be on the same basis as the LTCCP.
	To what extent will audit be looking at the restated balance sheet for the LTCCP?	Your auditor will be auditing your LTCCP – the restated balance sheet will be a key input into the LTCCP.
	Will changes as a result of IFRS mean an amendment to the LTCCP?	The impact of NZ IFRS will be built into the 2006 LTCCP. Future changes (post 2006) may give rise to amendments but this is seen as unlikely.
	Do LTCCP figures have to be on a group basis?	There is no requirement to have an LTCCP which includes consolidated figures, although it is an option.
	Will accounting policy adjustments best wait for the LTCCP or should we go through special consultation sooner e.g. debt increase impact.	The LTCCP is likely to be the first public accountability document of councils to include the detailed impacts of NZ IFRS. However, earlier disclosure is encouraged.
What is a Public Benefit Entity (PBE)?	Give us an example of a CCO/CCTO which is not a PBE.	<p>Most companies will be profit oriented entities and therefore not PBEs.</p> <p>ICANZ has issued ED 101 on assisting entities to determine if they are PBEs.</p>
	Is a provincial airport a PBE?	Refer to the ICANZ guidance. A provincial airport not required to make a commercial return is likely to be a PBE.

	PBE exemptions – what are they?	They are the shaded boxes in each standard. Examples: -PPE treatment of revaluation increments/decrements are permitted on a class basis. -PPE historical cost disclosures are not required when assets are revalued. (Refer to Appendix 4 of the Guidance Material).
	PBE: at a “division” or entity level?	It is evaluated at an entity level.
Christchurch City Council (CCC) Pilot		
	Can CCC make available to LG all the issues raised as part of their review?	Yes
	What were the resources CCC threw at the project?	Pilot started in September 2004. They have had 7-8 people at CCC attending workshops (8 workshops). Approximately 60 hours involvement for each of these people during the impact assessment phase. Plus CCC Director of Strategic Investments involved.
	How did CCC go about project planning?	CCC worked closely with PwC.
	When did the CCC/PwC pilot start i.e., how long has it taken to get to this point?	Approximately 2-3 months to conduct the impact assessment phase.
	Has CCC scoped the costs of compliance, in relation to financial systems?	No. Financial instrument systems are expected to be the major area of system change.
CCTOs	What can CCTOs do to get ready for IFRS? In addition to working with Council management of the project?	Plan and resource it appropriately.
NZ IFRS 1		
	What year would you put the adjusting transactions through?	Adjustments are made to the opening balance sheet 1/7/05.
	First time adjustment through equity...how?	Run ledger on NZ GAAP till 30/6/06 then work out cumulative adjustments. At that point then run ledger under NZ IFRS. Then disclose cumulative adjustment to opening equity (1/7/05) and restate 05/06 figures as necessary.
	Will there be audit assistance with the restatement of the balance sheet?	Your auditors need to be careful to maintain their independence (e.g. they can't get too close re selection of accounting policies) as they audit the restated balance sheets of councils. The OAG has issued a policy to its auditors on this matter.

	Will restating 05/06 mean 2 sets of financial statements for year ended 30/6/06? Are there transitional arrangements for financial instruments?	Councils will need to capture enough information so that they can subsequently restate the figures for the 05/06 year (as the 05/06 year must first be completed and audited on the basis of current NZ GAAP). The transitional arrangements for financial instruments are in NZ IFRS 1
	Need certain policies and documents in place by 1/7/05: what are these?	Hedge documentation is needed on the opening balance sheet date (1/7/05) if you intend to adopt hedge accounting.
	How many of the balance sheet (Statement of Financial Position) adjustments will be recognised through the Statement of Movements in Equity?	All adjustments between current NZ GAAP and NZ IFRS need to go through opening equity (1/7/05).
	Will our "historical cost" asset values that we created for infrastructure be accepted? Is this going to force annual revaluations to comply with fair value?	The requirement to maintain realistic asset values for all infrastructure is unchanged under NZ IFRS. The accounting standard includes an option to revalue, but the LGA financial management provisions in effect <u>require</u> revaluation of infrastructural assets at regular intervals.
	What are common examples of first time adoption entries?	Derivatives, revaluation adjustments, deferred tax, impairment of assets. Any adjustment will be through opening equity for things such as fair value of derivatives recognised for the first time.
	Can we progressively adopt IFRS? Or do you have to run 2 sets of parallel books?	Need records but not parallel records. i.e., a complete set of parallel books is unlikely to be required.
	How do we manage/account for changes in revenue as a result of restating the balance sheet?	Changes as a result of restating the balance sheet are taken to equity at the point of transition (1/7/05).
	First time adjustment to equity – do we hold until we fully adopt, then it adjusts what opening equity e.g. 1 July 2005? i.e. Does that mean we calculate adjustments at 1 July 2005 then rework 05/06 for new standards? Then rework 06/07 for new standards so fully adopt at June 07?	The opening balance sheet will not be published in the ordinary course of events. It needs to be created to enable comparative information to be provided with the first set of NZ IFRS compliant financial statements. For 1/7/06 adopters, the 30/6/05 balance sheet prepared under current GAAP will be adjusted for NZ IFRS and this will be the opening balance sheet. The numbers for the 05/06 year will be prepared under current GAAP for financial reporting purposes and then adjusted to NZ IFRS to establish comparatives for the 2007 financial statements. The numbers for the 06/07 year will be prepared under NZ IFRS.
	What is the disclosure requirement for the first year to show the restated column of information?	Under NZ IFRS 1 a reconciliation is required together with narrative to explain the adjustments. This will be a specific note in the 2007 Annual report.
	What happens if Council goes early i.e. prepare IFRS compliant accounts for the year ended 30/6/06 and an organisation which Council currently equity accounts for doesn't prepare IFRS compliant accounts until year ended 30/6/08?	If material, auditable NZ IFRS figures are required in respect of the associate. Somehow these need to be determined otherwise there could be an audit qualification at group level. An assessment of materiality may determine that the figures are not material (from the group's perspective) – in which case there is no audit issue.

	Do we use restated 30/6/05 figures for 30/6/06 comparatives? Or is it only for the basis of the next LTCCP?	The restated opening balance sheet at 1/7/05 will be useful for input into the LTCCP (i.e. to determine the 1/7/06 starting point) and for the 2007 Annual report.
IFRS 4	Insurance contracts	
	Are ACC accredited employer schemes caught?	Yes. In most cases these are unlikely to be material. However you will need to consider disclosure requirements. (Refer article on NZ IFRS 4 in the November 2004 copy of the ICANZ Accountants' Journal.)
NZ IAS 1	Presentation of Financial Statements	
	Definition of extraordinary items?	These will not be allowed under NZ IFRS. Extraordinary items are very rare under current NZ GAAP so no big change is expected.
NZ IAS 8	Accounting policies, changes in accounting estimates and errors	
	If we use a consultant to identify NZ IFRS issues, will we then need to have any changes in accounting policy approved by our auditors?	Keep your auditors in the loop through the process. The auditors don't 'approve' accounting policies as such but they will need to express an independent opinion on them.
NZ IAS 12	Income taxes	
	How does accounting for deferred tax benefit ratepayers? Is it a capital gains type tax?	It probably doesn't benefit ratepayers but it is part of the overall package of NZ IFRS. Remember deferred tax only affects entities that are subject to income tax. Deferred tax accounting is not a capital gains tax.
	Is there a model deferred tax document?	Refer to the training material.
NZ IAS 16	Property, Plant and Equipment	
	What are the key differences in the standard, especially for infrastructure assets?	There are no substantive changes for infrastructure assets (for PBEs).
	Is there a case for rationalisation of the level of detail required at component level for infrastructural assets?	The new standard does not change component level accounting but arguably there is now less guidance provided, something which the FRBSB may address in future.
	If Council records assets by class, but subsidiaries do not, does this cause a problem for the group?	Potentially yes. Group accounting policies need to be applied consistently.
	Are there any more changes to the classification of fixed assets?	No.
	Can you have some PPE at cost and other similar items at valuation?	You need to consistently treat all assets within a class (as is the case now under our current standards).
	What is the status of the NAMs valuation and depreciation guidelines?	NAMs are looking at rewriting their valuation and depreciation guidelines in terms of NZ IFRS.
	Can we start capitalising the cost of resource consents as an asset?	This is allowed as part of property, plant and equipment under FRS-3. No change with NZ IFRS.
	To what extent should assets classed as infrastructure assets be split into water, roading etc	No change with the move to NZ IFRS. Different classes of asset will need to be separately disclosed, i.e. water separately to roading etc.

	What issues should we be looking out for in relation to fixed asset treatments in 04/05?	Normal fixed asset accounting at component level should continue to be applied.
	What is the current thinking around allocating revaluation reserve balances to individual components of infrastructural assets? Given components have changed over time, change of accounting for revaluations by assets instead of asset classes?	Accounting by PBEs can still be at class level. However, where possible revaluation reserve balances should be allocated to components so that on disposal or replacement the revaluation reserve can be removed (i.e. transferred within equity).
	Are there any timing implications in adjusting revaluations cycles to fit with conversion timeframes?	Councils should carry on with current revaluation cycles as far as possible unless certain classes of assets are carried at a value materially different from their fair value.
	If assets are being revalued as at 30 June 2005 should this be done under both sets of standards?	In substance they are the same, both allow DRC as a proxy for fair value where there is no market based evidence.
	Do we have to, or have we the option to, capitalise interest on borrowing during construction of assets?	This remains an option.
	Asset revaluations to component level or not? Implications for classes of assets?	Asset revaluations are expected to be carried out at asset component level. However, accounting for movements in revaluations can be done at class level.
	Do we need to restate asset revaluation reserves as at 30/6/05 to component level?	This depends on whether the entity concerned is a PBE or not. Profit oriented entities will have to restate their revaluation reserves to component level. PBEs can choose to do so if that is not already the case.
	Are we required to initially record at cost then elect cost or revaluation. Assuming most assets will be carried at revaluation, in the intervening accounting periods between revaluations, can staff revalue new assets using unit rates etc adopted at latest certified revaluation where not significant and not have those certified by an external valuer? This would put all assets of that type/class on an equal footing rather than a mixture for that class of some assets at revaluation and some assets at cost. That is for us to carry assets at unit rates etc used for latest revaluation but avoid revaluation certification??	Between revaluations, asset additions are normally recorded at cost (which is the same as if the asset was revalued using DRC).
	We assume we can elect that certain assets be carried at cost and not valuation? For example office equipment, motor vehicles etc.	Yes provided the entire class is treated consistently, although as noted above it is expected all infrastructure assets will continue to be revalued at regular intervals.
	Could we carry non-heritage assets, such as library resources, on a DRC in-house basis (using existing Lib Assn standards) with periodic recalibration and recertification of valuation?	There is no compulsion to revalue such assets but where you do at least the basis for valuation should be reviewed by an independent valuer.

	<p>What happens at 1 July 2005? Does our 30 June FRS-3 revaluation become 'deemed cost' for 1 July 2005 and if so do we then have to elect to enter cost or revaluation method under IAS 16?</p> <p>What happens to then existing revaluation reserves – are they wiped?</p>	<p>Revaluations should carry on especially for infrastructure assets. In this case the revaluation reserves will continue also.</p> <p>These reserves are transferred to retained earnings if deemed cost option taken.</p>
	<p>What do we report in the 2005/06 annual report? We will have our 2004/05 report based on FRS-3 but assumedly 2005/06 using IAS 16? Is this therefore identification of early adoption of IAS 16 but not formally acknowledging full compliance with IAS until 2006/07??</p>	<p>The 2005/06 Annual report needs to be completed in terms of current NZ GAAP, i.e. FRS-3.</p> <p>For the purposes of the 2006/07 Annual report the 2005/06 figures will need to be restated to the extent necessary.</p>
	<p>Where do 'soft infrastructure assets' fit in? E.g. parks & reserves/streetscapes plantings, specialist turf etc? They do not appear to be covered by IAS 16/FRS-3?</p>	<p>These assets are covered by the definition of property, plant and equipment in FRS-3 and will also be covered by the definition in NZ IAS 16.</p>
NZ IAS 17	Leases	
	<p>What constitutes a finance lease under the new rules?</p>	<p>The brightline tests (i.e., the 75% and 90% indicators in SSAP-18) have been removed but in substance nothing has changed.</p> <p>Refer to the examples in the IFRS as guidance, rather than rely on %'s.</p>
	<p>How do you assess them now if you don't have % thresholds?</p>	<p>Both SSAP-18 and the new standard are based on "substance" – so to this degree they are the same.</p> <p>You can still calculate these %s but simply use the %s as part of the many factors that exist to make a holistic decision regarding who has assumed the majority of risks and rewards of ownership (which is how SSAP 18 should be interpreted now).</p> <p>Longer term</p> <p>Longer term the IASB is considering a project on lease accounting that may eliminate the distinction between operating and finance leases.</p>
	<p>If a subsidiary leases a property to another member of the wider group is this an investment property?</p>	<p>In the accounts of the subsidiary, yes, but at a group level it will be property, plant and equipment.</p>
	<p>Is % of life leased still considered?</p>	<p>Yes</p>
NZ IAS 18	Revenue	
	<p>Are there changes in accounting for vested assets?</p>	<p>No, in respect of PBEs such as local authorities.</p>

NZ IAS 19	Employee benefits	
Sick leave		
	Is sick leave a liability which should be recognised?	The OAG intends to produce some guidance on this to ensure NZ IAS 19, which is internally inconsistent, is able to be interpreted in a sensible manner by the sector.
	And would it force Councils to change policy to “use it or lose it” each year rather than allow sick leave to accumulate?	Councils will need to consider their policy positions within the context of the Holidays Act.
	Sick leave provision – what probability test? What reliability of measurement?	The same recognition and measurement criteria that apply to other employee entitlements apply to sick leave.
	Is it looking like a large amount?	Depends on the facts of each situation.
	Changes in movements of sick leave through P&L?	Any adjustments required at transition will go through opening equity. Thereafter, movements will go through the P&L.
NZ IAS 20	Accounting for grants and disclosure of government assistance	
	Are there changes in accounting for government subsidies?	Yes but only for profit oriented entities like CCTOs. The IASB has advised that it intends to revise this standard.
NZ IAS 24	Related party disclosures	
	Clarify related party disclosures	The best means of understanding the new requirements is to read the standard (NZ IAS 24).
	Disclosures for my spouse? How far does this go?	Only relates to dealings with the Council/Council group.
	What is the definition of immediate family?	Refer to the definition in the standard.
NZ IAS 27	Consolidated financial statements and accounting for investments in subsidiaries	
	How do you consolidate PBE and non-PBE where these may have different rules under IFRS?	Where the accounting is different and the differences are material adjustment is required at the group level.
	If subsidiaries differ in interpretation of IFRS to parent – how is this dealt with?	Given they are subsidiaries we would expect the parent to instruct the subsidiary to provide the necessary information that is compliant with the group accounting policies. If the subsidiary does not oblige then adjustment to figures would be required as part of the consolidation process.
	Are there any issues on the basis of original cost for a CCO in relation to assets purchased from Council?	Group level: no. For the subsidiary these can be carried at cost or at fair value.
	If subsidiaries have significant issues do they drive disclosure and treatment in the parent (Council)?	Yes – if material to the group.

	Are there entities that are not consolidating at present – that will change? Eg Watercare Services – how will this change?	The concept of control for PBEs is the same under NZ GAAP and NZ IFRS.
	What about community entities who have arrangements with (or guarantees) or develop a park on land owned by, the Council?	The issues are the same as with current NZ GAAP. Each arrangement must be considered in terms of GAAP requirements.
	Regional assets – for who is it a CCTO and for who is it an investment for consolidation purposes (Watercare, MOTAT, War Museum)?	The concept of ‘control’ for the purposes of consolidation has not changed with the move to NZ IFRS.
	Watercare shares: recognising share value movements – how will this be done?	Unless considered as subsidiaries or associates, Council investments in Watercare will be financial instruments and subject to NZ IAS 39.
	How can you consolidate if the accounting policies are not consistent?	Adjustments are required at group level if the inconsistencies are material.
	Will the rules on consolidation and control result in changes to Council disclosure requirements?	The concept of control is the same but disclosures may be different.
	There will be confusion with notes to the accounts re Council and consolidated. Will we need 2 sets of accounts?	This is no different under current NZ GAAP.
	Can we enforce CCOs to adopt the same policies or not?	As you control them you can require them to adopt consistent policies.
	Is there any change that would include presently independent trusts in the Council Consolidation process? If the answer is no, does the trust determine its own adoption date?	No practical change is expected. Going forward the IASB has a project to relook at the ‘control’ definition within the consolidation standard. The good thing is that NZ’s current FRS-37 definition and guidance is viewed as some of the best in the world so it should be influential in the development of the new IASB guidance. If independent, yes they have that choice.
	If a PBE accounts for revaluations by class but a profit oriented entity accounts for revaluations asset by asset what happens at group level?	You should apply group accounting policies. If material, consolidation adjustments will be required.
NZ IAS 28	Accounting for investments in associates	
	Do the policies need to be consistent between parent and associate? Are associate results going to have to be restated? Will the associate also have to adopt early? This could cause significant problems if you are a minority shareholder and the other shareholders are not PBE’s and are adopting early.	Yes, as far as they affect the group accounts. It depends if the results of applying different accounting policies is material at a group level. Ideal scenario (for practical reasons) is for the parent and associates to adopt at the same point in time. Involve your associates in the process as soon as you can.

NZ IAS 31	Joint ventures	
	Does NZ IAS 31 deal adequately with a joint venture run by a Joint Committee and no separate governance structure?	Yes. NZ IAS 31 is much broader in scope than SSAP 25.
NZ IAS 34	Interim financial reporting	
	First interim report for ¼ 2006: will this have to comply with NZ IFRS?	Yes. If such reports are general purpose financial reports, they will need to be NZ IFRS compliant. By then your system should be preparing IFRS based accounts.
NZ IAS 36	Impairment of assets	
	What has changed to make this high complexity and high financial impact?	Impairment has been an issue that has needed to be considered in respect of FRS-3. IAS 36 is more prescriptive as to how to test for impairment of cash generating assets.
	What tailoring to standards is likely to deal with impairment, in a non-income-generating context?	ICANZ has issued an ED to expand the scope of NZ IAS 36 to cover non cash generating assets and require these to be tested based on DRC.
	Where assets are held for non-revenue generating purposes (e.g. gardens, town halls etc), are those assets exempt from the asset impairment provisions?	They will be covered by the expanded NZ IAS 36.
	Does the same exception apply where a nominal charge is made (e.g. library charges, swimming pool fees)?	Yes.
	Is it correct that PBE's are exempt from an annual asset value impairment test?	No. PBEs will be required to comply with NZ IAS 36 once the scope of the standard has been broadened to cover non cash generating assets.
	How often do you do it? Every year?	Yes if there is an indication of impairment.
	Can the figures be subjective or do they have to be based on independent valuations?	Impairment will be assessed by the entity. However, as with all figures they need to be auditable if material.
	What about current flexibility in terms of timing of revaluations (i.e., go out to 5 year revaluations – audit opinion on measuring impairment).	The need for impairment assessment needs to be considered annually. Impairment must be assessed if the relevant indicators suggest there could be impairment.
	Any common frameworks developed for assessing impairment?	The standard includes indicators of impairment.
NZ IAS 37	Provisions, contingent liabilities and contingent assets	
	Will development contributions be revenue on collection or a liability?	Depends on whether there is an outstanding obligation for the Council to do something. If the contributions are for new infrastructure there will be a liability pending construction of the new infrastructure provided the council has an obligation to repay the amount if the infrastructure asset is not built. If the contribution is towards existing infrastructure revenue will be recognised except to the extent there is any unfulfilled obligation in respect of the contribution.

	What types of new liabilities might we have to recognise?	Generally liability recognition is the same, except derivatives which all now need to be on the balance sheet.
	Does it change the concept of contingent liability?	No, not at this stage.
	Landfills – post closure cost – is it affected?	Yes Aspects of the existing SOLGM guidance that was produced a number of years ago is affected by IFRIC interpretation 1 on decommissioning costs. Refer to that document to assess the impact of the change.
NZ IAS 38	Intangible assets	
	Are there likely to be impacts for Councils from the introduction of a standard on intangibles?	No major impacts expected.
	Water rights – how will these be valued?	The NZ IAS 38 rules will need to be applied.
	Access to community facilities.	In some cases Councils have paid money to schools to develop facilities on school land. There is then a contract to ensure public access to such facilities out of school time. These “right to use” situations are intangible assets. In the past we have looked to the Statement of Concepts and IAS 38 for relevant GAAP guidance. For this reason we don’t expect a major change to how these facilities will be treated going forward.
	Computer software	Most people have chosen to take advantage of the provision in FRS-3 PPE to include such assets as part of PPE. Under NZ IFRS it will depend on whether the computer software meets the definition of PPE or an intangible and this is influenced by how integral the software is to other assets.
	Forestry rights agreement – to be at fair value?	Likely to be a financial instrument and covered by NZ IAS 39 if it is not a biological asset under NZ IAS 41.
NZ IAS 39	Financial instruments: recognition and measurement	
	Do we expect Councils to adopt more flexible Treasury policies to allow for more volatility?	Accounting shouldn’t change good Treasury management.
	What’s different in reporting the movement and values now for financial instruments?	Refer to NZ IAS 39. This is a complex standard therefore you may need to take additional advice.
	Community loans	
	Community loans – 0% interest. How are these to be valued?	The FRSB is currently considering this issue with a view to possibly providing additional PBE guidance and/or exemptions. However if the standard remains unchanged it appears that such loans will need to be fair valued – which may mean a write-down from carrying value.

		To determine the fair value you have to estimate likely repayment date.
	What if the interest rate on a loan is lower than a normal market? Can this be recognised on an annual basis?	You would have to record at fair value of the loan at inception – in which case the full amount of the difference would be recognised up front.
	Redeemable preference shares	
	-If redeemable preference shares (RPSs) are like debt does that mean you can't attach imputation credits? -If treated as debt structure through NZ IFRS will IRD change its stance on dividends paid on RPSs?	Tax law is separate from accounting although the IRD is apparently considering the impact of NZ IFRS.
	Miscellaneous	
	100% owned subsidiary not publicly listed: valued at fair value in parent?	This is optional. (Either cost or fair value.) If fair value then apply NZ IAS 39 which gives the options for fair value movements to either put direct to equity or to the P&L. If there is no active market in respect of fair value then an annual valuation would be required.
	Are you expected to budget for changes to P&L resulting from financial instruments?	Prudent financial management as expected by the LGA 2002 is in terms of budget. However, no one can ever be expected to budget for unknown volatility.
	What about investments that are managed by Fund managers? Implications for disclosures?	Generally, fund managers in their contract have to provide financial statements in accordance with GAAP (going forward: NZ IFRS) – providing eg market value information. We understand that many fund managers currently have a project in place to develop the NZ IFRS required reports.
	Can you clarify your comments re credit ratings and accounting for debt?	If your credit rating drops then this will increase the interest rate that you would need to borrow at. In which case when you fair value some of your liabilities this could actually reduce the \$ amount of the liability.
	Will there be any change in accounting treatment for an "investment" in LAPP?	LAPP is more to do with a council's risk management framework. Any contingent assets or contingent liabilities should be disclosed.
	Risk tools: caps and collars: are these impacted?	These are caught under the guidance on financial instruments and embedded derivatives. To the extent that the rules require you to separate it then fair value them.
	Embedded derivatives within business contracts	
	What should be looked at?	AG 30-33 of NZ IAS 39
	Hedge accounting	
	Can we have more detail on hedging changes and implications?	The requirements of NZ IAS 39 in respect of hedge accounting are quite onerous (refer to the standard).
	What are the options or benefits of using hedge accounting?	The benefit is smoothing volatility in the P&L but this can also be achieved in some circumstances by fair valuing both derivatives and the physical (e.g. debt) and taking both to P+L.

<i>Hedging documentation - why by 1 July 2005?</i>	[Assuming conversion for 2006/07] Why do we have to have hedge policies etc in place by 1 July 2005?	Because NZ IFRS 1 requires this. Note for 31/3 subsidiaries this needs to be by 1 April 05.
	Is there a standard for the type of documentation that should be developed? Is the OAG/SOLGM going to provide guidance/examples of hedging instruments?	SOLGM is planning a national SOLGM seminar covering derivatives (including coverage re hedging).
	Materiality: we have \$1.5 million out of \$60 million that is hedged. Do we need compliant documentation considering it is such a small part of our debt?	If you want to adopt hedge accounting you need to meet the documentation requirements.
NZ IAS 40	Investment property	
	Do we have a definition on “investment property”? Is there a change from the current NZ GAAP definition?	Refer to the definition in NZ IAS 40 (for rental or capital appreciation or both). Some of the changes: -Removal of bright line tests – i.e., the % indicator (of occupancy) It will require accounting for the investment part of a property as an investment property and the remainder as PPE.
<i>SSAP-17 revaluation reserves</i>	If you have an existing reserve will this get transferred into General funds once you are accounting for these under NZ IFRS?	You can retain these or include as part of general funds within equity.
	Clarify what you mean by investment properties to be valued at current value instead of NCV.	Don't deduct estimated costs of disposal.
	Port properties – properties treated as infrastructure but leased to port users. Are these investment properties?	Comes back to the definition of investment property. You do need to clarify your policy which will be dependent on nature of rental agreements made with tenants.
	Airports: what happens if have to provide space free for customs, security etc?	If essential to running of an airport, will be PPE.
	Definition of an investment property – would renting houses be investment property?	If material, probably yes depending on the circumstances.
<i>Recognition of development margins.</i>	How are these treated?	Under NZ IFRS just recognise at cost until completion, at which stage all profit is recognised. This is a change from current NZ GAAP where development margins are progressively recognised.
NZ IAS 41	Agriculture	
	Which assets are not covered?	Agricultural type assets will be excluded if they don't meet the definition of a biological asset in the standard, e.g. trees planted for environmental reasons – provided they are not managed like a commercial operation.
	How would you tackle “fair value” for forestry where harvesting is in full swing over year-end?	Up to the Forestry valuer to estimate what state the forest is in at year-end.

	How do you value forestry planted for catchment control purposes?	Whether the forest is caught by NZ IAS 41 depends on whether it is being managed in a similar way to a commercial operation or not. Refer to the definition in NZ IAS 41 of “agriculture activity”. If yes, then caught by NZ IAS 41. If not then apply NZ IAS 16.
	Is there a difference in fair values for PBE and profit entities?	No.