

AUDIT NEW ZEALAND

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SOLGM Financial Management Seminar

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# NZ IFRS Update

# Agenda

- NZ IFRS Year 1 – how did the sector do?
- What's new for 2007/08
- NZ IFRS Looking forward

# NZ IFRS Year 1 – how did the sector do?

- How did the sector do?
- Common transition adjustments
- What could have been done better?

# How did the sector do?

- Mixed performance
- No NZ IFRS specific audit opinion qualifications (councils)
- Many statutory deadlines missed
- Some still not completed – 5 months late
- Significant costs to the sector
- Benefits as yet not clear
- Annual reports bigger

# Common transition adjustments

## Statement of Financial Position:

- Reclassification of software from PPE to intangibles
  - Fair value as deemed cost option for PPE
  - Recognition of derivatives at fair value
  - Recognition of sick leave liability
  - Write down of low interest loans
  - Reclassification between investments and cash and cash equivalents
  - Investment property at fair value – add back disposal costs
  - Deferred tax
  - Valuation of equity investments
  - Recognition of liabilities for financial guarantees
  - Held for sale reclassified as PPE
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# Common transition adjustments

## Statement of Financial Performance:

- Derivative fair value movements
- Investment property fair value movements (previously deferred in equity)
- Interest income recognised on low or no interest loans
- Movements in sick leave liabilities
- Forestry fair value movements
- Movements in fair value of financial instruments
- Movements in financial guarantee liabilities

## Statement of Cash Flows:

- Reclassification between investments and cash and cash equivalents

# What could have been done better?

- Planning, project mgt, completion
- Addressing difficult issues earlier
- Addressing disclosure issues earlier
- NZ IFRS 1 reconciliations not always clear
  - Eg, multiple adjustments to a single line item not analysed
  - Equity reconciliations not providing information on balance sheet reclassifications
  - Reporting of NZ IFRS changes to statement of cash flows
  - Prior GAAP errors not distinguished from NZ IFRS adjustments
- Accounting policies – need to be relevant
- Reporting of critical judgements and key estimations
- Financial instrument disclosures

# What's new for 2007/08

- NZ IFRS 7 Financial Instrument Disclosures
- NZ IAS 1 Capital Management
- 2007/08 - Other

# NZ IFRS 7 Financial Instrument disclosures

- Replaces NZ IAS 30 and part of NZ IAS 32 for periods from 1 Jan 2007 (early adoption was permitted)
- Applies to all entities
  - If only have debtors & creditors
- Disclosures to allow evaluation of
  - Significance of financial instruments
  - Nature & extent of risks from financial instruments
  - How those risks are managed
- Extent of disclosure depends on exposure to risk
- Many specific disclosure requirements

# NZ IFRS 7 Financial Instrument disclosures

- Qualitative & Quantitative disclosures for each type of risk
  - Credit risk
  - Liquidity risk
  - Market risk
    - Currency risk
    - Interest rate risk
    - Other price risk
- } Sensitivity Analyses  
required for each of these  
types of risks

# NZ IAS 1 Managing Capital

- Mandatory for periods from 1 Jan 2007 (early adoption was permitted)
- Disclose information to enable users to evaluate objectives, policies and processes for managing capital
- Based on info provided internally to key mgt personnel
- Qualitative and quantitative
- What is capital?
- How objectives are being met
- Any externally imposed capital requirements
  - Have these been complied with?
  - If not the consequences

# 2007/08 - Other

- Early adoption?
- Audit NZ Model NZ IFRS Financial Statements Update

# NZ IFRS Looking Forward

- New or amended NZ Standards & Interpretations – not yet effective
- NZ & International Exposure Drafts

# New or amended NZ Standards & Interpretations

- NZ IFRS 8: Segment Reporting
- IAS 2: Inventory for Distribution
- NZ IAS 23: Borrowing Costs
- NZ IAS 1: Presentation of Financial Statements
- NZ IFRS 3 (and NZ IAS 27): Business Combinations
- NZ IFRIC 12: Service Concession Arrangements

# NZ IFRS 8 – Operating Segments

- Replacement for NZ IAS 14
- Scope includes profit oriented entities, but **not** Public Benefit Entities (PBEs)
- Disclosed segments to reflect internal reporting to the chief operating decision maker
- Detailed disclosures for segments (revenue, expenses, assets etc)
- Also disclosures about products, services, geographical areas and major customers
- For periods beginning on or after 1 Jan 2009 (early adoption permitted)

# Inventory held for Distribution

- Amendment to NZ IAS 2 *Inventories*
- Applies to Inventory of **PBEs only** that is held for distribution (or consumption) at no or nominal consideration
- Previously NZ IAS 2 required that this inventory be held at lower of cost and current replacement cost
- Amendment changes this to cost adjusted when applicable for any loss of service potential
- Disclose any write downs and basis on which assessed
- For periods beginning on or after 1 Jan 2009 (early adoption permitted)

# Revised NZ IAS 23

## Borrowing Costs

- **Must capitalise** borrowing costs directly attributable to acquisition, construction or production of qualifying assets
- Qualifying asset is an asset that takes a **substantial** period of time to get ready for intended use
- Specific borrowing – actual costs
- General borrowing – use weighted average borrowing rate
- Capitalise during period of construction (as long as there is borrowing)
- Interest will need to be included in DRC revaluations of PPE
- For periods beginning on or after 1 Jan 2009 (early adoption permitted)

# Revised NZ IAS 1

## *Presentation of Financial Statements*

- Statement of financial position (Not balance sheet)
- Statement of cash flows (Not cash flow statement)
- 3 statements of financial position when:
  - Retrospectively apply a new accounting policy
  - Retrospectively restate (e.g. correct an error)
  - Reclassify

# Revised NZ IAS 1

## *Presentation of Financial Statements*

- Revised NZ IAS 1 - All owner changes in equity must be shown separately from non-owner changes in equity
- Statement of Changes in Equity
  - Total comprehensive income
  - Owner changes in equity
  - Effects of retrospective application or restatement
- Non-owner changes in equity are presented in either:
  - a Statement of Comprehensive Income, or
  - In two statements:
    - Income statement, and
    - Statement of comprehensive income
- For periods beginning on or after 1 Jan 2009 (early adoption permitted)

# Revised NZ IFRS 3 Business Combinations and NZ IAS 27

- Transaction costs now expensed (rather than part of cost of acquisition)
- Contingent consideration measured at fair value at acquisition date. Subsequent changes in fair value generally go to income statement.
- Goodwill – full or partial methods both acceptable
- Previously held non-controlling interests in acquiree are remeasured to fair value at acquisition date with gain/loss to income statement
- Other detailed changes and more guidance
- For periods beginning on or after 1 July 2009 (early adoption permitted)

# NZ IFRIC 12 *Service Concession Arrangements*

- Operators of public-to-private service concession arrangements for new or existing infrastructure, where
  - Grantor controls or regulates the services, including pricing; and
  - Grantor controls any residual interest in infrastructure at end of the arrangement
- Operator must not recognise the infrastructure as PPE as not controlled
- Operator's revenue split between construction and operation services based on fair value of services provided
- Operator recognises financial asset if has right to receive cash from grantor
- Operator recognises intangible asset if has a right to charge users of the public service.
- For periods beginning on or after 1 July 2008 (early adoption permitted)
- Should grantor (public entity) accounting be the opposite??

# NZ & International Exposure Drafts

- IASB ED 9 Joint Arrangements
- IFRIC Draft D24 Customer Contributions

# IASB ED 9 Joint Arrangements

- To replace NZ IAS 31: Interests in Joint ventures
- Joint Operations
- Joint Assets
- Joint ventures
  - No rights to individual assets
  - No direct obligations for the expenses
  - Entitled to a share of the outturn (ie profit/loss)
  - Equity account
  - **NOT** proportionally consolidate

# IFRIC Draft D24 Customer Contributions

- Receive PPE (or cash to construct PPE) to be used to provide access to services to customers
- Recognise contributed asset at fair value
- Recognise obligation to provide access at fair value of the contributed asset
- Obligation taken to revenue as access provided
  - Over period of obligation to provide access
  - No longer than economic life of the asset

# Summary

- New standards and interpretations are appearing regularly - some with significant implications for the public sector
- Early adoption is usually an option
- Little in the way of guidance or exemptions for PBEs

# Questions?