

Warren Allen, Chief Executive  
External Reporting Board  
Email: [submissions@xrb.govt.nz](mailto:submissions@xrb.govt.nz)

15 February 2016

Dear Warren

**Auckland Council submission to NZASB ED 2015-7 Proposed PBE Conceptual Framework**

Thank you for the opportunity to comment on the proposed PBE Conceptual Framework.

Auckland Council is Australasia's largest local government entity and is made up of the Council and six substantive council controlled organisations. We invest heavily in infrastructure and many of our decisions will have a fiscal impact on Auckland's future generations.

Except for the minor observations we noted, we believe that the proposed PBE Conceptual framework is well-written and comprehensive. The additional chapters on measurement of assets and liabilities in financial statements (Chapter 7) and presentation of general purpose reports (Chapter 8) add value to the preparers and users of financial reports.

We have given our responses to the specific questions for the respondents as an attachment to this letter along with our additional comments for the XRB's consideration.

The responses in this letter were also reviewed and agreed with Auckland Transport and Watercare Services Limited, two of the council controlled organisations.

Once again, thank you for the opportunity to comment.

Yours sincerely



Kevin Ramsay  
General Manager Corporate Finance  
and Property  
**AUCKLAND COUNCIL**



Francis Caetano  
Group Financial Controller  
**AUCKLAND COUNCIL**

## **Attachment – Auckland Council’s Responses to Questions for Respondents in the Invitation to Comment Document for Exposure Draft NZASB 2015-7 PBE Conceptual Framework**

1. Do you agree that the proposed PBE Conceptual Framework is suitable for application by all public benefit entities (both public sector and not-for-profit entities) in New Zealand? If you disagree, please provide reasons and indicate the nature of any modifications that you consider to be appropriate. Please organise comments by chapter.

### Auckland Council’s response:

In reviewing the Conceptual framework, we considered the application of each chapter to Auckland Council and the Council Controlled Organisations (CCOs) as public sector or government entities.

We note that when XRB introduced “public benefit entities (PBEs)” in the new Accounting Standards Framework (XRB A1) this includes not-for-profit entities as PBEs. We agree that it is appropriate that the proposed PBE Conceptual Framework should also apply to not-for-profit entities based on the nature of their activities, in general.

2. Do you agree with the NZASB’s proposal to retain the IPSASB’s reference to other resources and other obligations in Chapter 5, but to carefully consider any requirements to recognise other resources or other obligations in new or revised IPSASs? If you disagree, please explain why and propose an alternative approach.

### Auckland Council’s response:

We agree with NZASB’s proposal to retain the reference to “Other resources and other obligations” in Chapter 5. However, we request that the XRB, when issuing new or revised IPSAS in the future, issue clear rules and guidance of when to use this element, including examples that apply to PBEs.

3. Do you agree with the proposed definition of equity? If you propose any modifications to the definition, please explain why and outline your suggested changes.

### Auckland Council’s response:

We strongly agree with the proposed inclusion and definition of equity in Chapter 5.

4. Do you agree with the NZASB’s proposal to retain the IPSASB’s references to the statement of financial performance (even though PBE Standards refer to the statement of comprehensive revenue and expense)? If you disagree, please explain why and propose an alternative approach.

### Auckland Council’s response:

For consistency with existing PBE standards, we strongly suggest using statement of comprehensive revenue and expense in the Conceptual Framework rather than introducing a new term. We believe that statement of comprehensive revenue and expense is widely used by PBEs in New Zealand. The Council and the CCOs use statement of comprehensive revenue and expenses in our financial statements.

5. Do you have any other comments on ED NZASB 2015-7?

### General comments

- Revisit consistency of using “public sector” and “public benefit entity” in the whole document.

## Chapter 1

- Section 1.8: We suggest including “the Crown” and “CCOs” in the list of examples since these entities are widely used in New Zealand public sector.

## Chapter 2

- Section 2.7: We noted that the examples of services provided by not-for-profit entities are also provided by public sector entities in their normal activities. Thus, we suggest that this paragraph should emphasise the services exclusively provided by the public sector entities and should not differentiate the services that can be provided by both public sector and not-for-profit entities.

## Chapter 5

- IPSASB had strong reservations over the development of the term “other comprehensive income” as an option in finalising the concept of deferred inflows and outflows in this chapter (BC5.52). Other comprehensive income is widely used already by public sector entities in the financial reports.
  - Why can’t this be defined and introduced in the conceptual framework?
- Recently the term “income” was changed to “revenue” and, per invitation to comment document, the term “revenue” now includes gains.
  - Will this impact the presentation of revenue and other gains in the statement of comprehensive revenue and expenses?
  - Does this mean that other gains should be presented above the line as part of revenue items rather than in the statement of comprehensive revenue and expenses?

## Chapter 6

- We noted that the recognition criteria removed the “probability test” (bright line test) which has been widely used to assess whether to recognise an asset or a liability.
  - What does this mean for the recognition criteria in the PBE standards that still use the probability terminology?
  - Is the IPSASB or the XRB planning to update the standards to be consistent with the proposed PBE Conceptual Framework?

## Chapter 7

- We commend the IPSASB and the XRB in including this chapter about measurement of assets and liabilities.
- We acknowledge the removal of the term “fair value” in this chapter as a measurement base but we suggest that the term “fair value” and “market value” be used consistently across PBE standards.

## Chapter 8

- We commend the IPSASB and the XRB in including this chapter about presentation. The inclusion of this chapter is very timely as we are in the process of streamlining our financial reports.
- Section 8.25: We suggest that “legislative requirements” should be emphasised as one of the considerations in selecting information to be displayed and disclosed in the financial reports. Although we consider that “legislative requirements” can be part of the objectives of financial reporting, for a public sector, the additional information in our financial reports is significantly driven by legislative requirements.

The last sentence of section 8.26 states that *“Too much information may make it difficult for users to understand the key messages, and, consequently undermines achievement of the objectives of financial reporting.”* In our experience from our on-going streamlining of financial reports project, we believe there is still too much information that needs to be included due to these additional legislative requirements.