

22 November 2017

New Zealand Accounting Standards Board  
submissions@xrb.govt.nz

Tēnā koe koutou

**TE REO WHAKAPUAKI IRIRANGI (TE MĀNGAI PĀHO) SUBMISSION:  
IPSASB Consultation Paper Accounting for Revenue and Non-Exchange  
Expenses**

Te Reo Whakapuaki Irirangi (operating as Te Māngai Pāho) is pleased to provide its comments on the International Public Sector Accounting Standards Board's (IPSASB's) Consultation Paper: Accounting for Revenue and Non-Exchange Expenses.

The focus of this submission is on the proposed accounting treatment for non-exchange expenses. As a result of discussions with our auditor, we have significant concerns that the application of the proposed accounting treatment for the recognition of expenditure will render our reporting to the users of our financial statements confusing and misleading.

This concern centres on the definition and application of what constitutes a "performance obligation" under the Public Sector Performance Obligation Approach (PSPOA), when used to establish the point at which to recognise an expense and the need for clarity to distinguish between an obligating event and administrative arrangements within an established contract. Taking a form over substance approach will yield accounting results which will not tell users of our financial statements what they want to know or provide what they have been accustomed to receiving.

In preparing this submission, we have consulted with NZ On Air and the New Zealand Film Commission. We share common concerns about the continuing ability to present financial statements which are meaningful, useful to our users and reflect the underlying reality of our funding expenditure. Many of our interested stakeholders are the same, and comparability both between years and between entities is important. Our financial statements only provide a true reflection of funding expenditure and the use of resources when the expense is recognised on approval rather than based on

administrative staging of payments over time, which, if taken as the recognition point for the expense, artificially distorts the underlying financial performance and position.

## **Background**

Te Māngai Pāho is an autonomous Crown Entity established to promote Māori language and culture through making content available for the online, broadcast and music sectors. The entity is funded by Parliament through Vote Māori Affairs and is accountable for its conduct and performance to the Minister for Māori Development.

The relevant legislation governing Te Māngai Pāho's operations includes the Broadcasting Act 1989, the Crown Entities Act 2004 and Te Ture mō Te Reo Māori 2016.

The primary function of Te Māngai Pāho is to promote the Māori language and Māori culture by making funds available for broadcasting, the production of programmes to be broadcast and archiving programmes. As a secondary function Te Māngai Pāho may also make funds available for transmitting on demand, producing content for transmitting on demand and archiving content.

In the exercise of these functions Te Māngai Pāho will consult from time to time with representatives of Māori interests, broadcasters and others who, in the opinion of Te Māngai Pāho, can assist in the development of funding policies.

Te Māngai Pāho funds the national network of Māori radio stations and the production and broadcast of radio and television programmes, new media, music tracks and videos. It also funds the archiving of content.

Te Māngai Pāho has designated itself as a public benefit entity (PBE) for financial reporting purposes and does not operate to make a financial return.

Te Māngai Pāho's programme funding is non-exchange expenditure.

Te Māngai Pāho operates in a contestable funding environment and as such, funding applicants are eager to receive information on what projects were funded and for how much, as they try to determine evolving trends and benchmarks.

## **Relating to the User Experience**

Our area of work is the funding of content that will best appeal to its intended target audience. With the growth of digital platforms for launching content, increasingly the

factors used in decision making for the allocation of funding centre on consideration of the “User Experience” or UX in the jargon.

Equally in the reporting of our activities, there should also be a focus very much on the User Experience. Consideration should be given to the sort of information that the user expects, wants and needs. Our financial statements are our accountability documents to Parliament and the New Zealand taxpayer, and are also sought by people and entities involved in the broadcasting and media sector. Te Māngai Pāho emphasises transparency and accountability as part of our values and we wish to remain to be seen as transparent and accountable in the way that information is presented to users of our financial statements.

### **Accounting Treatment**

Contestable funding is let through a series of Request for Proposals (RFP) funding rounds during the year. Once the round closes, applications received are considered by an assessment committee which makes recommendations to the Board. Funding rounds are generally considerably oversubscribed so that there is high interest in the results of the round.

The Board has the final say on the projects that will receive funding. Successful projects receive a Letter of Offer (which may be conditional or unconditional).

Once the production company accepts the Letter of Offer (and fulfils the conditions if applicable) the accounting treatment would be to expense the full amount of the project in the Income and Expenditure Statement and raise a corresponding liability in the Statement of Financial Position.

Our view is that once the applicant accepts the Letter of Offer and meets any conditions, this is the obligating event for Te Māngai Pāho and the applicant has a valid expectation of entitlement to the full amount of the funding.

Our concern is that there could be an interpretation that the various administrative milestones attached to the contract, individually form separate obligating events, so that expenditure in this view would only be recognised incrementally.

This could create accounts that would show that Te Māngai Pāho had not allocated all the available funding in the year or, conversely, that it was operating a deficit due to the carry over of transactions from the previous year.

The impact of changes to the way in which funding might be recognised in Te Māngai Pāho’s accounts is demonstrated by the following example, using a television funding contract.

## **Example: TV Production Drama contract**

### ***Current Treatment***

As an example, assume that in October 2016, the Board approved an unconditional contract for a television production drama for \$2.3 million.

The entries would be:

Dr Funding Expense	\$2.3 million	
Cr Funding Liability		\$2.3 million

Before year end, payments of \$1.1 million were paid out under the contract.

Dr Funding Liability	\$1.1 million	
Cr Bank		\$1.1 million

In the annual financial statements at 30 June 2017, there would be an expense of \$2.3 million and a funding liability of \$1.2 million. Interested readers of the accounts could see the full value of the contract in the accounts and, together with all other contracts treated in a similar way, that Te Māngai Pāho had allocated all available funding in the year (which is always our aim). This is important for both the government who entrusted us with the funds for distribution and for funding applicants and broadcasters who would see that available funding had been used.

### ***Applying a Strict Performance Obligation Definition***

Applying a strict interpretation of the performance obligation definition, entries would be as follows:

On acceptance:

Dr Funding Asset	\$2.3 million	
Cr Funding Liability		\$2.3 million

Payments made before year end:

Dr Funding Expense	\$1.1 million	
Cr Funding Asset		\$1.1 million

Dr Funding Liability	\$1.1 million	
Cr Bank		\$1.1 million

The annual financial statements would show an expense of \$1.1 million, a funding asset of \$1.2 million and a funding liability of \$1.2 million. The accounts would seem to indicate that only \$1.1 million had been expensed and there remained a further \$1.2 million yet to be allocated.

## **Conclusion**

Presenting meaningful information to the users of the financial statements should drive the choice of accounting treatment. Te Māngai Pāho contracts include milestones that have been worded in such a way to provide levers to ensure delivery but this is simply to ensure public money is wisely spent.

While Te Māngai Pāho supports the adoption of the Public Sector Performance Obligation Approach, there is a possibility that adoption of a narrow interpretation of obligating events would create unintended consequences. Without such accommodation, future financial statements for entities in our sector would become increasingly opaque and result in avoidable confusion and misinformation.

Together with similar agencies in our sector, Te Māngai Pāho asks the Board to give consideration for scope to broaden the guidance around the determination of an obligating event in order that we might continue to meet the needs of the users of our financial statements.

Should you have any questions regarding this submission, please contact our Manager Corporate Services, Thomas Hood ([Thomas@tmp.govt.nz](mailto:Thomas@tmp.govt.nz)).

Nāku noa, nā



Larry Parr  
**Kaihautū-Chief Executive**

## **APPENDIX ONE: ACCOUNTING POLICIES EXTRACT**

### **Funding Expenditure**

The allocation of funds to broadcasting projects is recognised as expenditure in the financial year the allocation is made provided that, prior to the end of the financial year, the project has received Board approval and the funding applicant has received notice of approval in writing. Expenditure therefore includes funds allocated but not paid out at year end. The funds not paid out are recorded as funding liabilities in the statement of financial liability. This liability is reduced as the applicant is paid according to the drawdown schedule specified in the production contract.

### **Critical judgements in applying accounting policies**

Te Māngai Pāho has exercised judgement in developing its funding expenditure accounting policy above, as there is no specific accounting standard for funding expenditure.

Te Māngai Pāho is of the view that once the conditions in the policy have been met, the funding recipient has a valid expectation that funding will be paid, and that is the point at which expenditure is recognised. Any milestones included in underlying contracts are for administrative purposes only.

With the recent introduction of the new PBE accounting standards there has been debate on the appropriate framework to apply when accounting for such expenditure. Te Māngai Pāho is aware that the need for a clear standard or authoritative guidance on accounting for funding expenditure has been raised with the New Zealand Accounting Standards Board and will consider any developments.

### **Funding Liabilities**

At the time projects are approved by the Board of Te Māngai Pāho and notification is made to the funding recipient, expenditure is charged against the current year's income and recorded as a liability. The liability is reduced as the funding recipient is paid according to the drawdown schedule specified in the funding contract. It is expected that the majority of these liabilities will be paid

**APPENDIX TWO: SUMMARY OF CONTRACT EXPENDITURE 2016/17**

<b>Funding Type</b>	<b>\$m</b>	<b>%</b>	<b>Liability as at 30/6/17</b>	<b>Liability as at 30/6/16</b>
Direct Funding of Māori Television	16.1 m	30%		
TV Programmes, Digital Initiatives and other	24.6 m	45%		
<b>Television</b>			<b>\$13.9 m</b>	<b>\$13.3 m</b>
Iwi Station Operational Funding	10.5 m	19%		
Radio Programmes, Music and Videos	2.0 m	4%		
Other	\$1.2 m	2%		
<b>Radio and Music</b>			<b>\$1.4 m</b>	<b>\$0.9 m</b>
<b>Total</b>	<b>\$54.4 m</b>	<b>100%</b>	<b>\$15.3 m</b>	<b>\$14.2 m</b>