

# **Submission on Exposure Draft NZASB 2018-2**

## **2018 Omnibus Amendments to Tier 3 and Tier 4 PBE**

### **Accounting Requirements**

#### Background

##### **Methodism in New Zealand-Foundation**

On 22 January 1822, the Rev. Samuel Leigh and his wife arrived in New Zealand to begin the Wesleyan Methodist Mission. They had been appointed to mission work in the colony by the Wesleyan Methodist Conference in England, and they thus represented missionary zeal that marked Methodism almost from its inception under John and Charles Wesley. By the late nineteenth century the Wesleyans, Primitive Methodists, Free Methodists, and Bible Christians (all to be joined in 1913 to form the Methodist Church of New Zealand) were meeting in almost 1,000 churches, halls, and houses, and there were over 100,000 people attending the services.

Based upon 2013 census data, 3% of those people who reported a religious affiliation indicated they were Methodist. This accounts for just under 103,000 people. The Methodist Church is the 5<sup>th</sup> largest Christian based Church within New Zealand.

The Methodist Church of New Zealand (the Church) was instrumental in gathering signatories for the Treaty of Waitangi, supporting Maori and developing a bi cultural Church to further meet obligations under the Treaty.

The Church has moved from the traditional view of “mission” within the new colony of New Zealand and has broadened its approach as the needs of New Zealanders and society have changed. The focus on social justice is strong within the modern Methodist Church of New Zealand.

#### **Vision Statement**

Te Haahi Weteriana O Aotearoa – The Methodist Church of New Zealand is a Church:

- ❖ Passionate in its commitment to living out the love and grace of God known in Jesus Christ;
- ❖ Actively concerned with all life;
- ❖ Committed to the Treaty of Waitangi and to talking and walking justice.

Strategy: To achieve this vision the Church will:

- ❖ Creatively focus its people, finances and resources in the life and Mission of the Church.
- ❖ Empower the people to live out the Vision by establishing cost effective:

- communication networks;
- accessible education opportunities
- ❖ Constantly evaluate its work against the Vision Statement.

## The Churches Need to Produce Performance Reports

The Church is made up of a number of entities which are a mix of unincorporated societies of church members, registered charitable trust registered under the Charitable Trust Act 1957 and companies registered under the Companies Act 1993.

The Church is required to produce and have audited Performance Reports due to either the requirements of specific Trust Deeds that are in place, legislation or specific policy requirements within the Church.

The Church believes that it has taken both a pragmatic and forward looking approach to the production of performance reports (annual financial statements) and early adopted the Tier 3 and 4 reporting standards a year before the commencement date.

In 2017 the Connexional Office of the Methodist Church received 140 sets of accounts. A breakdown of which Tiers all of these sets of accounts falls into is shown in Table 1. You will note that the audit committee of the Church was unable to determine which Tier a set of financial statements would fall into based upon the financial statements presented in 40 sets of accounts. There is still work to be done.

Tier	Number	%
Tier 1	1	0.71%
Tier 2	9	6.43%
Tier 3	73	52.14%
Tier 4	17	12.14%
Unknown	40	28.58%

The XRB will note the concentration of Tier 3 and Tier 4 reporting entities and the Church believes that most, if not all of the 40 “Unknown” would fall within the Tier 4 reporting standard.

## Responses to the Exposure Draft

Our response to the exposure draft is taken from the view of the primary users of the financial statements (that is internal church members and governance committees within the Church) and the preparers of the Performance Reports (who are mainly aged between 51 and 70 years of age, mainly volunteers with less than 5% being members of an accounting professional body).

### Changes in Terminology

We understand that the change in terminology that is proposed from “reliability” to “faithful representation” to Tier 3 reporting standards would align the Tier 3 reporting standards back to the PBE Conceptual Framework, but we believe that this does not seem to add value to the

final performance reports. We would suggest from a user and preparers point of view, the way they prepare and issue the Performance Report will not change.

Our concern also, regarding the wording change, is the legal ramifications associated with the change. It would appear from some commentators that a number of accounting academics do not see the practical need for the change as the outcome to the performance reports does not change. The terms “reliability” and “faithful representation” are, as suggested in the Exposure Draft, qualitative and therefore firstly reliant on the preparer knowing what the users (and possibly an independent reviewer or auditor) believe to be a “faithful representation”.

Our submission simply is, if the changes suggested do not add value to the users, then why?

### Presentation of the Entity’s Performance

Clause A10(b)(ii) is being amended on the basis that terminology is being changed from the use of the word “Reliability” to “Faithful representation” and adding to the definition that “Information is complete, neutral and free from material error.”

We are concerned that the inclusion of this wording will mean that someone will need to make a judgement call on the materiality level for the performance report that then allows for the information presented to be complete.

Tier 3 and 4 reporting standards were intended to be used by preparers and users with little or no understanding of the formal accounting processes required by International Public Sector Accounting Standards. There is little understanding about the concept of “materiality” from an accounting perspective within the current preparers of the performance reports as the vast majority of them are not accounting professional. Care needs to be taken when such changes are being made and who the audience is.

### Accounting for Revenue

We agree with the concepts and wording being introduced into clause A62 and Table 1 of the Tier 3 Standard.

### Reversal of Impairment Charges

The suggested wording in clause A107.1 is confusing for the preparers. We believe that the wording should read:

*A107.1 If there is any indication that a prior impairment charge which has been recognised in a prior period for an asset no longer exists or that the level of the impairment has decreased (i.e. if it is apparent that an asset is recorded in the performance report at an amount lower than its current net realisable value), an entity shall reverse all or part of the previous impairment charge.*

We do not understand the requirement in the wording in A107.2 (b). We assume that this wording has been written on the basis that the investment is held on the balance sheet at cost rather than at fair value. We believe that the wording for investments should be similar to the intent of clause A107.2(c) which deals with property, plant and equipment.

### Revaluation of Property, Plant and Equipment

While this is not being addressed in this Exposure Draft, we feel that parts of clause A114 of the Tier 3 standard needs further clarification. The clause uses the words “the relevant requirements of PBE IPSAS 17”. Who determines which parts of PBE IPSAS 17 are relevant to the performance report of the reporting entity and what are, and what are not relevant? We are unsure whether the words should be in clause A114.

### Revaluation of Property, Plant and Equipment

We would agree with the minor wording changes in clauses A115 to A118 suggested in the Tier 3 reporting standard.

### Requirement to Sign and Date the Performance Report

We agree with this amendment as we have had that requirement in place since the introduction of the new financial reporting standards. We believe it is good practice.

While the exposure draft seemed to confuse the terminology as to the reasons why the performance report requires a date and signature (see page 11 with references regarding “authorised for issue” and “the date of finalisation”, which seem to be two different concepts). We believe that the correct terminology is the date when the performance report is “authorised for use” and therefore A148.1 and A148.2 (including the heading should reflect that terminology in a consistent manner). It would also helpful to define what the expectations of the XRB are in relation to what that term means.

We do not agree that the statement of financial performance (as provided in A148.2) or the statement of receipts and payments (as provided in A69.2) is the correct place to have the authorisation.

We see no preference in either the Tier 3 or Tier 4 to suggest that one statement has a greater level of importance than any other within the performance report. Given the emphasis in recent years on the need and requirement of the statement of service performance, we believe that is a better place for the authorisation date and signatures.

We also see the need to extend the suggested wording in clauses A148.2 and A69.2 as the requirement is simply to have a date and a name and no more. What does that mean for the users? For example, based upon the wording in clause A69.2, this is wording we would add to the bottom of the statement of receipts and payments:

*“Date Approved:*

*Name of Person who gave the Authorisation:”*

We believe that the intent and therefore the wording of clause A69.2 is as follows (but on the statement of service performance):

*The Parish Stewards of ABC Parish have authorised the release of the performance report on pages 1 to x as a faithful representation of its financial performance on 1 May 2018.*

For those entities that have an audit or review, the date of authorisation is also discussed and measured with regard to the audit or review process in place to ensure that the date correctly aligns with the date on the audit certificate issued by the independent qualified person (assuming they follow international audit and review standards).

However, for those entities that do not require an audit or review, the XRB may wish to provide guidance as to when the authorisation should be given.

### Amendments Arising from Changes to XRB A1

#### Tier 4 “Controlled Entities”

We agree with the wording presented in the suggested wording under “Scope”, that is the new wording in suggested clause 2.1. The Methodist Church has already dealt with this issue and assumed the intention of the standard included the controlled entities, as suggested in the Exposure Draft.

This assumes that the definitions of “operating payments” and “capital payments” as set out in XRB A2 do not change from their present definitions.

We also assume that when a preparer is looking at which tier the entity should elect, it will first look at all of the cash transactions in all bank accounts of the reporting and controlled entities, it will remove all payments that are between the reporting entity and the controlled entities AND THEN look at the remaining transactions to see which are operating and which are capital and from that point determine if the operating payments are below the statutory thresholds.

If preparers were following XRB A1 correctly (and making the assumption the entity has correctly determined that it is a PBE) they should all be preparing financial statements using Tier 1, given the default situation is Tier 1 (paragraph 60 of EG A1). Without undertaking this, an entity cannot make a determination if it needs to assess whether it can elect a lower Tier of reporting and they would have (or should I say should have) taken into account the entities they controlled. While I do not believe this is the correct approach, that is to say the default position should be Tier 1, it is the approach the XRB have determined. I do not believe that preparers of performance reports would even contemplate this as the default position.

#### Related Party Transactions

We disagree with the removal of the word “significant” from the clauses that relate to Related Party Transactions for Tier 3 and 4 reporting entities.

While the use of the word “significant” requires a certain amount of judgement, there are many other aspects to the production of the performance reports that require an equal amount of judgement. We believe that by retaining the concept of “significant” would mean that insignificant related party transactions which have no bearing on the user’s interpretation or usefulness of the performance reports would not be individually reported.

We note that the words “significant” have been removed from clause A202 of the Tier 3 reporting standard but not from clause A206. We are at a loss to understand why it would be removed from the Explanation when it is not removed from the Requirements clauses. The same issue arises in the Tier 4 reporting standards. What is actually achieved?

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**31 May 2018**