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Submitted to: submissions@xrb.govt.nz

Request for information – Simple Format Reporting Standards – Post Implementation Review

We appreciate the opportunity to provide comments to the New Zealand Accounting Standards Board on the *Request for information – Simple Format Reporting Standards – Post Implementation Review*.

Our comments in this submission are in the context of the Public Sector Simple Format Reporting Standards.

Overall, we believe the simple format reporting standards are generally working well. We have outlined in our submission some areas of concern, and where improvements or clarifications to the standards would be beneficial to their users.

Our responses to the Questions for Respondents are attached.

In preparing this submission, we have consulted with our colleagues at the Office of the Auditor-General.

If you would like to discuss our comments, please phone me on 021 222 6107 or email me at robert.cox@auditnz.parliament.nz or Brett Story on 021 222 6247 or at brett.story@auditnz.parliament.nz.

Yours sincerely



Robert Cox
Director and Head of Accounting

Our responses to the questions for respondents:

1. What is your overall view on how the standards are working?

Overall, we believe the standards are generally working well in the public sector. We have outlined in question 3 below and in the appendix to this submission some areas of concern, and where improvements or clarifications to the standards would be beneficial to their users.

2. What parts of standards, guidance or templates have been working well? Are there any that have been particularly useful?

No comment to add.

3. Are there any specific issues that you have encountered in applying the standards, guidance, or templates?

We have identified some issues in applying the standards.

Our main areas of concern are:

- The Tier 3 standard includes multiple revenue examples of recording some revenue types using cash accounting. This conflicts with the principle of paragraph A64 of recognising revenue upon the occurrence of a recognition event, which is when there is a legal right to receive cash now or in the future. Our view is all revenue types must be accounted for based on accrual accounting concepts to comply with paragraph A64 and to be consistent with the fact that the standard is an accruals standard.
- The Tier 4 standard requires disclosures of information about significant resources and commitments. We have been concerned that this disclosure requires working capital items, such as inventories, receivables and payables, to be determined and disclosed. We consider working capital items should be outside the scope of these disclosures as the standard is a cash standard.
- The Tier 3 and 4 standards sometimes include disclosure requirements that Tier 2 entities are not required to make. Our view is there should be a general principle in developing these standards that disclosures should not be any greater than those required by Tier 2 entities.

We have outlined our detailed comments in the appendix to this submission.

4. Have you developed any custom guidance to help apply the standards?

Yes, we have developed:

- a model set of financial statements for a Tier 3 entity (based on a Trust that is council-controlled organisation);
- an excel template for cemeteries that apply the Tier 4 standard; and
- an excel template for reserve boards and administering bodies that apply the Tier 4 standard.

The model and excel templates are available on our website at the following link:

<https://auditnz.parliament.nz/good-practice/mfs-under-pbe-standards>

5. Do you have any other comments you would like to raise about the standards, guidance, or templates?

Refer to our detailed comments in the appendix to this submission.

Appendix – Detailed comments on application of the simple format reporting standards

Tier 3 Simple Format Reporting Standard

Paragraph reference	Comment
Application of PBE Standards	
7	The reference to the financial instrument standards should also refer to PBE IPSAS 41 <i>Financial Instruments</i> .
Entity information	
A40	<p>Consistent with our comments on paragraphs A44 to A47 below (statement of service performance), we suggest that a more plain English terminology be used and the reference to “outputs” be removed. We consider the requirement in PBE IPSAS 1 paragraph 150(b) may be easier for tier 3 and 4 entities to understand and apply: “a description of the nature of the entity’s operations and principal activities”.</p> <p>However, we also note that the PBE IPSAS 1.150(b) has a disclosure concession for tier 2 entities. Whether this disclosure concession is appropriate could be debated, but it exists. Therefore, the options we suggest for consideration are either to delete paragraph A40 as it is more onerous than the disclosure requirements applying to tier 2 entities or alternatively to change the language of the requirement to make it easier for small entities to understand by aligning with PBE IPSAS.150(b).</p>
Statement of Service Performance	
A42	This paragraph needs to be amended and be clear that this part of the Tier 3 standard only applies to entities that are required by legislation to provide a SSP <u>in accordance with generally accepted accounting practice (GAAP)</u> . This will then align with practice and the scope of PBE FRS-48 where Tier 1 and 2 public sector PBEs only apply PBE FRS-48 if legislation requires the service performance information to comply with GAAP (PBE FRS-48 paragraph 3(b)).
A44 to A47	Since the tier 3 and 4 standards were issued FRS-48 on service performance reporting has been issued for tier 1 and 2 entities. FRS-48 has taken a broader view of service performance and uses straightforward language (e.g. paragraph 15) and does not explicitly require the use of an outcomes and outputs framework. The NZ ASB’s decisions to remove the use of the terms outcomes and outputs from FRS-48 are explained in the basis for conclusions (BC26 to BC28). We suggest that the SSP requirements of the tier 3 and 4 standards be reviewed to see if they can be more aligned with the high-level principles in FRS-48.
Statement of financial performance	

Paragraph reference	Comment
A64, A65, A69	<p>The principle in para A64 is to recognise revenue upon the occurrence of a recognition event, which is when there is a legal right to receive cash now or in the future i.e on an accrual basis.</p> <p>Some of the examples in the table are not consistent with this principle as they state revenue is recognised on receipt or when funding or cash is received. For example, this is the case for general funding from government, donations and grants with no use or return conditions, including grants for current operations and capital grants.</p> <p>Some other examples also state that revenue is recorded when the funding is received, implying cash accounting. For example, this is the case for general funding from central or local government.</p> <p>Our view is the accounting for revenue, including all the examples paragraphs A64 and A65 must be accrual's based as the Tier 3 standard is an accrual's standard.</p>
A64	<p>Other fees and charges category – The guidance needs to be clearer on “on-going benefits” for registration fees. It is unclear from the current wording whether it is the entity providing on-going benefits to the registrant that is the determining factor for revenue recognition or whether it is the registrant receiving on-going benefits from the registration. We would expect the key determinant for revenue recognition is whether the registry body has an obligation to provide on-going benefits to the applicant.</p>
A82	<p>We recommend the reference to “entitlement” in recording wages, salaries and leave upon entitlement be removed as it suggests only vested annual leave (i.e entitled annual leave up to the last anniversary date) is recorded and not accrued annual leave (i.e. annual leave accrued since the last anniversary date).</p> <p>It would be helpful to include long-service leave and retiring leave as an example of recording a staff expense upon entitlement to the leave entitlement i.e. when the entitlement vests for the employee.</p>
Statement of financial position	

Paragraph reference	Comment
A116	<p>It would be helpful if guidance was provided on how an entity presents revaluation movements when it opts up to PBE IPSAS 17 to revalue land and/or buildings given there is no other comprehensive revenue and expense concept or statement of changes in equity in the Tier 3 standard. We note para A116 states that the entity only applies the relevant requirements of PBE IPSAS 17 when revaluing.</p> <p>Our view is the movement should be credited directly to a revaluation reserve in the statement of financial position, with a required disclosure on the movement in the reserve balance for the year provided in the notes. Guidance would also be required on when to recognise valuation movements in the surplus/deficit, such as when the revaluation reserve for the class of revalued assets becomes exhausted. We do not support Tier 3 entities preparing a statement of comprehensive revenue and expense simply because they have opted up to the revaluation aspects of PBE IPSAS 17.</p> <p>We note the same issue arises if an entity elects to opt to the Tier 1 and 2 standards for financial instruments and under those standards some instruments are measured at fair value with movements recorded in other comprehensive revenue and expense (e.g for those instruments classified as available-for-sale).</p>
Notes to the performance report	
A200	<p>Our strong view is the scope of the commitment disclosures needs reducing to align with those required by the Tier 2 requirements. At present, the Tier 3 standard requires commitment disclosures for all significant operating commitments. This is significantly wider and more onerous than the Tier 1 and 2 operating commitment disclosure requirements, which generally only apply to operating leases.</p>
Illustrative examples	
Example 1	<p>The difference in the revenue recognition points for scenarios 2 and 3 are unclear. In both scenarios, the Fish and Game Council and the Registration Board are providing a right to the applicant but the entities are not required to provide any additional services to the applicant beyond the issuance of the license/registration. Based on the scenario information provided and guidance in the standard, we would expect the revenue for the Fish and Game Council to be recognised up front and not spread over the license period.</p> <p>Additionally, Scenario 3 says revenue is accounted for when the fees are received, which implies when the cash is received. This is not consistent with para A64 where other fees and charges are recorded as revenue when the fee is due to be received.</p>

Tier 4 Simple Format Reporting Standard

Paragraph reference	Comment
A28	Our comment about paragraph A40 of the tier 3 standard applies here too.
A30	<p>This paragraph needs to be amended and be clear that this part of the Tier 4 standard only applies to entities that are required by legislation to provide a SSP <u>in accordance with generally accepted accounting practice (GAAP) or non-GAAP standard</u>. This will then align with practice and the scope of PBE FRS-48 where Tier 1 and 2 public sector PBEs only apply PBE FRS-48 if legislation requires the service performance information to comply with GAAP.</p> <p>We note that we are not currently aware of any public sector tier 4 entities that are required to produce a statement of service performance. However, we see no harm in retaining the service performance requirements in the tier 4 standard as this will future proof the standard for any future changes in reporting requirements. Note Reserve Boards previously were required to produce a statement of service performance, but this requirement was removed by the Public Finance Amendment Act 2013.</p>
A32 to A36	Our comment about paragraphs A44 to A47 of the tier 3 standard applies here too.
A79	<p>This paragraph requires entities to disclose the nature and amount of significant resources and commitments of the entity. It is unclear on what is mean by “amount” of significant resources and commitments. Is it intended to be a monetary amount or a physical amount, or some other basis? If it is monetary amount, how should this be determined?</p> <p>Our view is this disclosure should only require a qualitative description of the resource (e.g land and buildings located at [xx]). Quantitative information should only be optional e.g. rateable value of land and buildings or number of livestock units.</p>
A80-81	We have been concerned that this disclosure suggests working capital items require disclosure. We consider working capital items should be outside the scope of these disclosures as the accounts are a cash set of accounts. Requiring such information is inappropriately forcing accrual concepts onto preparers and auditors.