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Te Kāwai Ārahi Pūrongo Mōwaho  
EXTERNAL REPORTING BOARD

## Tier 3 (NFP) Standard

### REPORTING REQUIREMENTS FOR TIER 3 NOT-FOR-PROFIT ENTITIES

#### TIER 3 (NFP) STANDARD

Issued November 2013 and incorporates amendments to **[Month, Year]**

This Standard was issued by the New Zealand Accounting Standards Board, a sub-Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This Standard is secondary legislation for the purposes of the Legislation Act 2019.

## REPORTING REQUIREMENTS FOR TIER 3 NOT-FOR-PROFIT ENTITIES

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# REPORTING REQUIREMENTS FOR TIER 3 NOT-FOR-PROFIT ENTITIES

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*Reporting Requirements for Tier 3 Not-for-profit Entities (Tier 3 (NFP) Standard) is set out in paragraphs 1–16 and Appendices A, B and C. All the paragraphs in the Standard and Appendices have equal authority. Tier 3 (NFP) Standard should be read in the context of its objective, the Basis for Conclusions and Standard XRB A1 Application of the Accounting Standards Framework.*

## Objective

1. The objective of this Standard is to facilitate financial reporting by not-for-profit public benefit entities that are eligible for and elect to apply the Tier 3 PBE Accounting Requirements for not-for-profit entities, by improving the quality and consistency of the information disclosed in performance reports, and to facilitate comparability between entities, and between years for the reporting entity.

## Scope

2. This Standard applies to not-for-profit public benefit entities that are eligible for, and elect to apply, the Tier 3 PBE Accounting Requirements. A not-for-profit public benefit entity is eligible to apply this Standard if it:
  - (a) Has total expenses less than or equal to \$2 million; and
  - (b) Does not have public accountability for financial reporting purposes.

Please refer to the Glossary for further information about how “not-for-profit public benefit entity”, “total expenses” and “public accountability” are defined for financial reporting purposes.

## Standard

3. Not-for-profit public benefit entities that are eligible for, and elect to apply, the Tier 3 PBE Accounting Requirements shall prepare a performance report in accordance with the requirements set out in Appendix A and the transitional provisions in Appendix B of this Standard.
- 3.1. An entity that is eligible to apply this Standard, and elects to do so, may elect to apply the requirements of a Tier 2 PBE Standard to a specific type of transaction, in accordance with the requirements set out in Appendix C of this Standard.
4. This Standard applies to an entity that is required to prepare a performance report. The Standard applies to the performance report of single entities and entities that have certain interests in other entities.
  - 4.1 When preparing a performance report, an entity is required to identify its interests in other entities and assess whether, for the purposes of financial reporting, any of those interests result in the other entity meeting the definition of a controlled entity, an associate or a joint arrangement. Refer to Appendix C for further guidance on how to determine the nature of an entity’s interest in another entity, as well as for the requirements that an entity must apply when accounting for an interest in a controlled entity, an associate or joint arrangement.
  - 4.2 [Deleted]
  - 4.3 [Deleted]
  - 4.4 [Deleted]
  - 4.5 [Deleted]
  - 4.6 If an entity has an interest in another entity that is not a controlled entity, an associate or a joint arrangement it accounts for that interest in accordance with the requirements on investments in Section 6 of this Standard.
5. Accompanying this Standard is an explanatory guide containing an optional template and associated guidance notes that illustrate the requirements of this Standard (*Explanatory Guide A5 Optional Template and Associated Guidance Notes for Reporting Requirements for Tier 3 Not-for-profit Entities*). It is not mandatory to apply the template or guidance notes and they have no legal status. However, when an entity applies the template in the specific circumstances of the entity, the performance report will comply with this Standard.
6. Where this Standard does not provide guidance on a specific type of transaction or event, the entity shall use its judgement to determine an appropriate method of accounting for that transaction type that results in the performance report providing relevant and faithfully representative information. The entity shall refer to, and consider the applicability of, the following in descending order:



- (a) The principles and requirements in this Standard dealing with similar and related transactions or events; and
- (b) The definitions and concepts in the [PBE Conceptual Framework](#) to the extent that they do not conflict with this Standard.

In making the judgement described above, the entity might also consider (but is not required to apply) the relevant requirements in the Tier 2 PBE Standards dealing with the same, similar or related transactions or events.

- 7. [Deleted]
- 8. [Deleted]
- 9. [Deleted]

### Effective Date

- 10. A not-for-profit public benefit entity that is eligible to apply this Standard, and elects to do so, shall apply this Standard for periods beginning on or after 1 April 2015. Earlier application is permitted.
- 11. *Interests in Other Entities* (Amendments to PBE SFR-A (NFP)), issued in September 2014 amended paragraph 4 and the Glossary, and inserted paragraphs 4.1–4.6. A not-for-profit public benefit entity shall apply these amendments for periods beginning on or after 1 April 2015. Earlier application is permitted.
- 12. *Amendments to Simple Format Reporting Accounting Requirements as a Consequence of XRB A1*, issued in December 2015, amended paragraphs 1–3, 4.5, 6-9, A1, A175(a) B2 and B9 and the headings preceding paragraphs 7, B8 and B9. It made no changes to the requirements contained in this Standard. A not-for-profit public benefit entity shall apply those amendments for periods beginning on or after 1 January 2016. Earlier application is permitted.
- 13. PBE IPSAS 34, PBE IPSAS 35, PBE IPSAS 36, PBE IPSAS 37 and PBE IPSAS 38, issued in January 2017, amended paragraphs 4.1–4.6 and the Glossary. A not-for-profit public benefit entity shall apply those amendments for periods beginning on or after 1 January 2019. Earlier application is permitted.
- 14. *2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements*, issued in July 2018, amended paragraphs 6, 7, 8, 9, A10, A113, A114, A115, A180, A182 and A202, Table 1: *Recording of Specific Types of Revenues* (follows paragraph A62), Table 2: *Recording of Specific Types of Expenses* (follows paragraph A80), Table 3: *Recording of Specific Types of Asset* (follows paragraph A107) and the Glossary, added paragraphs A107.1, A107.2, A148.1, A148.2 and deleted paragraph A12. An entity shall apply those amendments for periods beginning on or after 1 January 2019. Earlier application is permitted.
- 15. PBE IPSAS 41 *Financial Instruments*, issued in March 2019, amended paragraph 7. An entity shall apply those amendments if and when it applies PBE IPSAS 41.
- 16. **[Draft]** *Amendments to Tier 3 (NFP) Standard*, issued in **[Month, Year]** amended paragraphs **[x]**. A not-for-profit public benefit entity shall apply those amendments for periods beginning on or after 1 April 2024. Earlier application is permitted.

## Appendix A: Specific Requirements

*This Appendix contains the requirements for entities applying Reporting Requirements for Tier 3 Not-for-profit Entities. It is an integral part of the Standard.*

### Section 1: Introduction

- A1. This part of the Standard<sup>1</sup> sets out the requirements for the preparation of a simple format report known as the “Performance Report”. The Standard may be applied by eligible not-for-profit (NFP) public benefit entities (PBEs) that elect to apply this Standard in accordance with the requirements of [XRB A1 Application of the Accounting Standards Framework](#).
- A2. This Standard comprises a number of sections (as shown in the Table of Contents). These refer to specific aspects of reporting. Within each section information is presented in numbered paragraphs to enable cross-referencing within this Standard.
- A3. Terms are defined in the Glossary in section 11 to assist with the understanding of this Standard.

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<sup>1</sup> This Appendix is part of the Standard and so the term “Standard” is used throughout. “Standard” refers to the Reporting Requirements for Tier 3 Not-for-profit Entities abbreviated as Tier 3 (NFP) Standard.

## Section 2: Objective of Reporting and Overview of Reporting Requirements

### Users and Their Needs

- A4. The performance report for a NFP PBE is designed for those users who cannot require the entity to disclose the information needed for accountability and decision making. Most users fall into two groups:
- (a) Providers of resources to the entity; and
  - (b) Recipients of services from the entity.
- A5. Examples of these users are:
- (a) Donors, who contribute to a shelter for the homeless which relies on grants and donations from the community (resource providers); and
  - (b) Service recipients who benefit from the meals and short-term accommodation provided at the shelter.

### Objective of Reporting

- A6. An entity should prepare a performance report that addresses the following questions:
- (a) “Who are we?” – an overview of the entity;
  - (b) “Why do we exist?” – why the entity was established and what it seeks to achieve;
  - (c) “What did we do?” – what the entity did during the year in providing goods or services;
  - (d) “What did it cost?” – what it cost to provide the goods or services, and to run the entity;
  - (e) “How was it funded?” – the sources of revenue used to pay for its activities in providing goods or services;
  - (f) “When did we do it?” – the period covered by the report, and a comparison of information with previous reporting periods;
  - (g) “How did we do our accounting?” – the accounting policies applied; and
  - (h) “What do we need to continue operating?” – the ability of the entity to continue achieving its objectives and operate in the foreseeable future. This question can be answered by looking at the performance report as a whole.
- A7. The performance report is usually prepared for a financial year (which is a twelve-month period that ends on the entity’s “balance date”). The performance report shall identify and reflect the period to which it refers, and contain only the revenue, expenses and cash flows for that period. The performance report may be prepared for a part year, but this is unusual and most likely occurs when the entity is formed or ceases to exist during a year, or changes its balance date. If this is the case, the entity will need to check that the revenue, expenses and cash flows are only for that part year, for example, depreciation and rent.

### Required Components of the Performance Report

- A8. An entity shall prepare a performance report every financial year with, at a minimum, the following components:
- (a) Entity information which explains what the entity is and why it exists (section 3);
  - (b) A statement of service performance which explains what the entity was seeking to achieve and what it did (section 4);
  - (c) A statement of financial performance showing what the entity has generated (revenue) and the cost of running the entity (expenses), over the year, so that users and preparers know whether the entity has made a surplus or a deficit for that financial year (section 5);
  - (d) A statement of financial position showing what the entity owns (assets), what the entity owes (liabilities) and the difference (accumulated funds) at the balance date (section 6);

- (e) A statement of cash flows showing the cash the entity received, and the cash the entity paid out during the year (section 7);
  - (f) A statement of accounting policies which explains the accounting rules used to prepare the performance report (section 8); and
  - (g) Notes to the performance report explaining some of the amounts shown in the statements in (b)–(e) above, as well as explaining relevant events affecting the financial year including commitments and contingencies (section 9).
- A9. An entity may change the titles of these statements if the entity considers that an alternative title is more suitable for the entity and users of the performance report. For example, the statement of financial position is sometimes referred to as the balance sheet, and the statement of financial performance is sometimes referred to as the operating statement.

### **Presentation of the Entity's Performance**

- A10. The performance report shall fairly present the entity's service performance, financial performance and cash flows over the financial year, and its position at balance date, in accordance with this Standard. Fair presentation is achieved by compliance with this Standard, and also requires an entity to:
- (a) Select and apply appropriate accounting policies (section 8);
  - (b) Present information in the best way to achieve the following goals:
    - (i) **Relevance:** the information can be used to assess the entity's performance.
    - (ii) **Faithful representation:** the information represents what has happened in a way that most users would see as a fair representation of the situation. Information is complete, neutral and free from material error.
    - (iii) **Understandability:** information is presented so that users can identify the main points of the entity's performance in that year and ask questions about that. Users should not have to be a qualified accountant to do this.
    - (iv) **Timeliness:** The performance report should be provided as soon as possible following the end of the financial year so that the information is useful and relatively current. For some not-for-profit PBEs legislation<sup>2</sup> defines the period by which the annual performance report must be completed.
    - (v) **Comparability:** users are able to compare what the entity did this year with what the entity did last year. Users might also want to see how the entity performed compared to similar entities in the same sector this year.
    - (vi) **Verifiability:** the information reported is capable of being supported by independent means. Verifiability helps assure users with different levels of knowledge that the information in the performance report is without material error or bias.
- A11. Where the requirements of this Standard have been followed but more information about particular events during the year is needed in order to give users a full picture of what happened, additional relevant information shall be provided.
- A12. [Deleted]
- A13. It is important that the performance report is internally consistent. This is done by cross-referencing each line of a statement to any other information that relates to that line item in the rest of the performance report. For example, the total for property, plant and equipment would be referenced to the note containing the property, plant and equipment schedule. It is also important that any non-financial information, for example, information included within the statement of service performance, is consistent with financial information included elsewhere in the performance report.

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<sup>2</sup> The Charities Act 2005 requires that the financial statements must accompany the annual return that must be filed within 6 months of the end of the financial year.

**General Information**

- A14. Each component in the performance report specified in paragraph A8 shall be clearly identified.
- A15. An entity's performance report shall incorporate all the activities of the entity. The performance report shall include all branches or other operating units, if the entity is structured into more than one unit. This is done by collating and reporting information from all the branches or operating units and excluding all transactions between those units. Identifying the branches or other operating units within the entity is relatively straight forward where the entity has legal form. For unincorporated entities, the entity will need to look at factors such as whether those branches or other operating units are acting as part of the entity, for example, by using the entity's registration number on the Charities Register.
- A16. The following information shall be displayed prominently, and repeated at the top of each page of the performance report:
- (a) The name of the entity that is preparing the performance report;
  - (b) The date of the end of the financial year covered by the performance report, or the period to which the performance report applies, as appropriate;
  - (c) The currency used in the presentation of the performance report; and
  - (d) The level of rounding used in the presentation of the performance report (as a general rule whole dollars – rather than dollars and cents – should be used; rounding to the nearest hundred or thousand may be appropriate for larger entities).

**Comparative Information**

- A17. Although the performance report focuses on the current financial year's information, comparative information for the previous financial year shall be included in the statement of service performance, statement of financial performance, statement of financial position, statement of cash flows and any associated notes to the performance report unless this Standard specifically allows otherwise. Comparative information shall also be provided for the disclosures about related parties in the notes to the performance report. The performance report may contain further comparative information where it is considered useful for users of the report.
- A18. An entity may, but is not required to, report budgets or plans as an additional column alongside its actual results as further comparative information.

**Consistency of Presentation**

- A19. An entity shall select and apply its accounting policies consistently for similar transactions and other events, unless this Standard specifically requires or permits categorisation of items for which different policies may be appropriate. If this Standard requires or permits such categorisation, an appropriate accounting policy shall be selected and applied consistently to each category.
- A20. An entity may prepare its performance report on either a GST-inclusive or a GST-exclusive basis, provided that GST is reported in a consistent way throughout the performance report.
- A21. All amounts shall be presented in New Zealand dollars. If the entity has transactions or balances that are not in New Zealand dollars, it shall translate amounts to New Zealand dollars as follows:
- (a) Transactions are to be translated using the exchange rate on the date the revenue, expense or cash flow occurs; and
  - (b) Monetary asset and liability balances are to be translated using the exchange rate at balance date.
- A22. An entity shall not change the way the information is presented, or the categories of disclosure, from one period to the next unless:
- (a) There has been a significant change in the entity's operations;
  - (b) The change in presentation or category of disclosure would provide more useful information for users (refer to paragraph A10(b) for guidance on those characteristics that information should have to make it useful for users); or

(c) This Standard requires that the presentation or a category of disclosure is changed.

A23. Any changes to presentation or categories of disclosure due to the application of paragraph A22 also require similar changes to the comparative amounts, unless it is not reasonably possible to do so.

### **No Offsetting of Amounts**

A24. Users of the performance report should be given as much relevant information as possible about the entity. Therefore, the entity shall report gross amounts for transactions, and not offset (net-off) any associated transactions or balances. This means that:

- (a) Assets and liabilities shall not be offset against each other; and
- (b) Revenue and expenses shall not be offset against each other.

A25. Valuation adjustments such as write-downs of inventory or property, plant and equipment provide for the change in value of an entity's assets. Measuring assets net of valuation adjustments is not considered offsetting. Accounting for the net amount of GST owing to or from Inland Revenue is also not considered offsetting.

### **Significant Items**

A26. Items are significant if their omission or misstatement could, individually or collectively, influence the decisions or assessment of users relying on the performance report. Significance is considered in relation to both the nature and size of the item, or a combination of both. For the purposes of this Standard, significance has the same meaning as materiality.

A27. Significance applies to both financial and non-financial information.

### **Correction of Errors**

A28. Significant errors shall be corrected as soon as reasonably possible. Errors arising during the reporting period shall be corrected before the performance report is finalised. Errors relating to past periods shall be corrected in the current performance report before the report is finalised by adjusting the opening balance of the relevant asset, liability or accumulated funds at the beginning of the financial year. No adjustments to past periods are required (see paragraph A212).

### **Changes in Accounting Estimates**

A29. The use of estimates is an essential part of preparing the performance report on an accrual basis. For example, estimates may be required of:

- (a) Revenue earned to date under a contract;
- (b) Bad debts arising from uncollected receivables;
- (c) The current value of old inventory; and
- (d) The useful lives of items or categories of property, plant and equipment.

A30. An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. The revision of an estimate does not relate to prior periods and is not the correction of an error.

A31. The effect of a change in an accounting estimate shall be recorded by including it in the statement of financial performance as part of the relevant revenue or expense item in the current period.

A32. To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or accumulated funds, it shall be recorded by adjusting the amount of the related asset, liability, or accumulated funds for the current period.

### **Events After the Balance Date**

A33. Events after the balance date are those events, both favourable and unfavourable, that occur between the balance date and the date when the performance report is finalised. The balance date is the last day of the financial year to which the statements relate. The date of finalisation is the date on which the statements have received approval from the individual or body with the authority to authorise those statements for issue.

- A34. An entity shall adjust the amounts recorded in its performance report and update the related disclosures to reflect events after the balance date that provide evidence of conditions that existed at the balance date. The following are examples of events that require an entity to adjust the amounts recorded in its performance report, or to record items that were not previously recorded:
- (a) The settlement after the balance date of a court case that confirms that the entity had a liability at the balance date.
  - (b) The receipt of information after the balance date indicating that an asset was impaired or damaged at the balance date. For example:
    - (i) The bankruptcy of a debtor that occurs after the balance date usually confirms that a loss already existed at the balance date on a receivable account, and that the entity needs to adjust the carrying amount of the receivable account; and
    - (ii) The disposal of damaged inventories after the balance date may provide evidence about their net realisable value at the balance date.
  - (c) The discovery of fraud or errors that show that the performance report is incorrect.
- A35. An entity shall not adjust the amounts recorded in its performance report to reflect events after the balance date that are indicative of conditions that arose after the balance date. The following are examples of such events:
- (a) The entity decides after the balance date, to make further grants to the community;
  - (b) Purchases and disposals of assets that occur after balance date;
  - (c) A decision by a lender made after balance date to forgive some amounts borrowed by the entity; and
  - (d) The entity enters into significant commitments after the balance date, for example issuing significant guarantees after balance date.

### Section 3: Entity Information

#### Purpose and Value to Users

A36. The purpose of the entity information is to summarise for users what the entity does and how it is organised. This information will assist users in their understanding of the entity and help particularly with their interpretation of the performance report.

#### Required Information

A37. The entity information shall provide general descriptive information about the entity. This information shall comprise:

- (a) The entity's name, type of entity and legal basis (if any);
- (b) The entity's purpose or mission<sup>3</sup> (the key difference the entity is trying to make);
- (c) The entity structure (i.e. whether it includes separate operating units, divisions or branches);
- (d) The entity's governance arrangements (i.e. who makes the key decisions on behalf of the entity);
- (e) The names of any entities controlled by the entity for financial reporting purposes; and
- (f) The entity's reliance on volunteers and donated goods or services.
- (g) [Deleted]

A37.1. The information required by paragraph A37 may be incorporated by cross-reference from the performance report to some other statement or report (e.g. an annual return submitted to a regulator) that is publicly available to users of the performance report at the same time.

A38. The amount of detail will depend on the size of the entity and the complexity of its operations.

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<sup>3</sup> Also called vision, strategic goals, or outcome goals.



## Section 4: Statement of Service Performance

### Purpose and Value to Users

A39. The purpose of the statement of service performance is to provide information to help users understand what the entity did during the financial year to achieve its objectives.

A40. The statement of service performance provides information about:

- (a) What the entity is seeking to achieve over the medium to long term (i.e. its objectives)
- (b) The significant activities the entity has undertaken during the financial year in working towards its objectives, as described in (a) above; and
- (c) Its significant achievements during the financial year.

### Required Information

A41. The statement of service performance shall:

- (a) Describe what the entity is seeking to achieve over the medium to long term; and
- (b) Describe, and quantify as far as reasonably possible, the significant activities the entity has undertaken, and what it has achieved, during the financial year.

A41.1. The information required by paragraph A40(a) is likely to be closely related to the entity's mission or purpose. The main difference is that the mission or purpose is usually stated in broad or general terms and applies over the life of the entity. By contrast, the information required by paragraph A41(a) should be more specific, focused on what the entity is seeking to achieve over the medium to long term.

A42. The information disclosed in the statement of service performance should be what the entity considers important for a user's overall understanding of its service performance (i.e. its significant activities and achievements). Therefore, the entity is not expected to include a detailed account of everything it has done in the financial year.

A42.1. To meet the requirements in paragraphs A40(b) and A40(c), the entity shall provide users with an appropriate and meaningful mix of measures and/or descriptions of activities and achievements in the financial year. The measures and/or descriptions used by an entity may be:

- (a) Quantitative measures – e.g. quantity of goods and services, time taken to provide goods and services, etc.
- (b) Qualitative measures – e.g. compliance or non-compliance with a quality standard, ratings such as high, medium or low, etc; or
- (c) Qualitative descriptions – e.g. those based on participant observations.

A42.2. The most appropriate and meaningful measures and/or descriptions are those that measure or describe aspects of performance that are of particular value or importance to users for accountability or decision making purposes. Refer to paragraph A10(b) for guidance on the qualitative characteristics that information should have to make it useful for users.

A42.3. Entities shall present the information in the statement of service performance in whichever format is most helpful to users' understanding of the entity's significant activities and achievements. The Tier 3 template reports provide a generic simple example. For example, an entity may choose to present information using:

- (a) Graphs;
- (b) Tables; or
- (c) Images or infographics showing the entity's activities and achievements during the financial year.

A42.4. Service performance information shall be reported consistently from year to year. If the entity changes what it reports or how it reports its service performance information, it shall explain the nature of those changes, the effect of those changes on the current period's service performance

information, and the reason those changes were made. Possible reasons for a change in what is reported and how it is reported include changes in:

- (a) The nature of the entity’s activities from the prior period or from what was planned;
- (b) The descriptions of goods and services or the way in which they are aggregated; or
- (c) The measures and/or descriptions used.

Changes to comparative information are permitted, but not required. If an entity chooses to restate comparatives it shall disclose the effect of the changes on that comparative information.

**Optional Information**

A43. An entity may wish to report additional information such as:

- (a) [Deleted]
- (b) Comments on those factors which affect the achievement of the entity’s objectives. This might include the working relationships between volunteers and employees, decisions to broaden or narrow the delivery of services, or the impact of factors external to the entity – such as economic, legal and geographical factors; and
- (c) The entity’s plans for the financial year being reported on, and an explanation of actual performance achieved against the plans set by the entity; and
- (d) [Deleted]

A44. [Deleted]

**Section 5: Statement of Financial Performance**

**Purpose and Value to Users**

A45. The purpose of the statement of financial performance is to report all revenue and expenses of the entity for the financial year. The statement provides users with information about the entity’s financial performance, including its revenue, expenses and the resulting surplus or deficit generated during the financial year.

**Format of Statement of Financial Performance**

**Required Information**

A46. The statement of financial performance shall be presented as follows:

Revenue (by category)	xx
Less expenses (by category)	xx
Surplus/(Deficit)	xx

A47. If the entity pays income tax, this shall be shown as a separate line item after surplus or deficit, with a further total called Surplus/(Deficit) after Tax also reported.

**Alternative Format**

A48. Where the making of grants and donations is a major activity of the entity, and/or where the entity receives significant grants for capital purposes an entity may elect to present these items separately from other revenue and expenses, in accordance with the following format:

Revenue (by category)	xx
Less expenses (by category)	xx
Operating surplus/(deficit)	xx
Revenue from capital grants and donations	xx
Less grants and donations made	xx
Surplus/(Deficit)	xx

A49. [Deleted]

### Revenue

- A50. Revenue is the cash and other resource inflows of the entity, other than inflows from borrowings, sale of assets, or contributions of capital from owners (see paragraph A53)<sup>4</sup>.
- A51. Revenue can come from various sources. Examples include public donations, grants from philanthropic trusts, donations and fees from members, funding for the provision of goods or services (including government contracts) and proceeds from the sales of goods or services (including trading revenue from commercial activities).
- A51.1. A pledge is a promise made by a donor to contribute funds, goods or services, or other assets to the entity in the future. Revenue is not recorded until the funding, goods or services, or other assets are received, in which case it is accounted for in the same way as other donation revenue.
- A52. Revenue includes only amounts received and receivable by the entity on its own account. Amounts collected on behalf of others (that is, as agent of another entity) are not revenue of the entity. However, if there is a commission involved in this collection arrangement the commission received would be recorded as revenue (see also paragraphs A83–A86).
- A53. Some NFP entities have owners who contribute capital<sup>5</sup> (often occurring at start up). Contributions to the entity by these owners (other than membership fees, donations and fees for services) are classified as funds contributed by owners in the statement of financial position, and not as revenue (see also paragraphs A140–A141).

### Required Information

- A54. In order to make information understandable to users, revenue shall be totalled (i.e., aggregated) and separately presented in categories. The following aggregated categories shall be reported separately in the statement of financial performance when applicable to the reporting entity:
- (a) Donations, koha, bequests and other general fundraising activities;
  - (b) General grants and other revenue from service delivery;
  - (c) Capital grants and donations;
  - (d) Government service delivery grants/contracts;
  - (e) Non-government service delivery grants/contracts;
  - (f) Membership fees and subscriptions;
  - (g) Revenue from commercial activities;
  - (h) Interest, dividends and other investment revenue; and
  - (i) Other revenue.
- A55. Category (a) above includes donations, koha and bequests received from the public or other organisations, for example, central or local government, charitable trusts, foundations and other philanthropic agencies. It also includes any revenue from fundraising activities.
- A55.1. Category (b) above includes any grants received which provide general funding for the entity. It also includes revenue from sales of goods or services which directly, in themselves, contribute to the achievement of an entity's stated purposes and are not related to a service delivery grants/contract. For example, an entity with the objective to improve mental health in the community which provides counselling services at a heavily discounted rate with the ability to do so being supported by donations or general grants.
- A55.2. Category (c) includes any grants and donations received with an external expectation from the resource provider that the funding is used to purchase or construct a significant asset. A grant which has an expectation over its final use but which is not in substance a contract for delivery

<sup>4</sup> See the Glossary for a more detailed definition of revenue.

<sup>5</sup> This is analogous to a for-profit entity where the shareholders contribute share capital.

of goods or services would be included in category (b) or category (c) depending on the nature of the expectation.

- A55.3. Grants received from the government or other agencies that are in substance a contract for delivery of goods or services would be included in category (d) or (e) above depending on their source.
- A55.4. Category (g) includes any revenue received by the entity from the sale of goods or services in a commercial capacity. In this context, commercial activities means activities conducted by the entity with an intention to derive a surplus and which do not, in themselves, contribute to the achievement of an entity's stated purposes. Some activities which could be considered commercial in nature may be carried out on a smaller scale, or without the intention to engage in a commercial activity on an ongoing basis. In such cases this revenue would instead be considered fundraising revenue and therefore be included in category (a).
- A55.5. Any revenue from members received in exchange for their membership to the entity would be included in category (f).
- A56. Entities only need to report against a category specified in paragraph A54 when the category is applicable to the entity. If a category is not applicable, the entity may omit that category from its performance report.
- A57. The categories may be described using terminology appropriate for the entity and need not use the titles used in paragraph A54, provided that the separate categories are still maintained.
- A58. If there is difficulty in determining the category that should be used for a particular transaction, the entity shall make its best estimate of the appropriate classification. This classification shall then be used consistently in future periods so that the information reported is comparable over time.
- A59. [Deleted].
- A60. [Deleted]
- A61. Further breakdowns (or "disaggregation") of the categories in paragraph A54 may be provided in the notes to the performance report. For example, donations, koha, bequests and other general fundraising activities may be further disaggregated by fundraising campaign or type, such as by street collection, postal appeal, raffles or charity auction. The entity may also elect to include in the notes to the performance report a list of donors or grant providers, together with a summary of their contributions, if it considers that this is useful information. The objective is to provide a breakdown that gives the most useful information to users of the performance report.

**Accounting for Revenue**

- A62. Revenue shall be recorded on the occurrence of a recognition event. This is generally when there is a legal right to receive cash either now or sometime in the future. The timing of the recording of specific revenue types is provided in Table 1.

**Table 1: Recording of Specific Types of Revenues**

Source	When to Record	Comments
<b>Donations, koha, bequests and other general fundraising activities</b>		
Fundraising – cash	Record as revenue when cash is received.	May be received in the form of donations or from the sale of goods or services (excluding sale of goods or services as a commercial activity).

REPORTING REQUIREMENTS FOR TIER 3 NOT-FOR-PROFIT ENTITIES

Source	When to Record	Comments
Fundraising – other	If the entity receives an asset refer to section on “donated assets” below. If the entity receives goods or services refer to section on “donated goods or services (other than donated assets)” below.	As part of a fundraising campaign the entity may receive donations of assets (other than cash) which it may keep, or the entity may receive donated goods which it may sell to raise funds.
Insignificant donations and bequests	Record as revenue when cash received.	Revenue recognition shall not be deferred even if insignificant donations and bequests with expectations over use are significant in the aggregate.
Significant donations and bequests received with no expectations over use	Record as revenue when cash received.	Revenue recognition shall not be deferred even if the reporting entity expects to spend the funding received on related expenditures in future periods.
Significant donations and bequests received with expectations over use	On receipt of the donation or bequest record asset for funding received (generally cash) and a matching deferred revenue balance. As or when the expectations over use are met, the deferred revenue balance is reduced and revenue is recorded.	The deferred revenue balance as at balance date reflects the extent to which the expectations over use (as established and documented by the resource provider) have not yet been satisfied. Judgement will be required to determine an appropriate approach for determining the point in time at which, or the period over which, the documented expectations are satisfied.
Donated assets (other than cash)	<i>Significant donated assets with useful lives of 12 months or more:</i> Record on receipt at readily obtainable current values (such as local council rateable value for land and buildings) <i>Significant donated assets that are difficult to value such as intangible assets, highly specialised assets, and heritage assets:</i> Do not record the asset or any revenue from the donation. <i>Other donated assets:</i> Do not record the asset or any revenue from the donation.	<i>Significant donated assets that are recorded:</i> Disclose in the notes to the performance report details of the assets in accordance with the disclosure requirements of this Standard in relation to the particular class of asset (see paragraphs A190–A191). <i>Significant donated asset not recorded:</i> Details are disclosed in the notes to the performance report (see paragraph A192).
Donated goods or services (other than donated assets)	Do not record (for example cleaning services provide by members)	Significant donated goods or services (including services in kind) are to be disclosed in the notes to the performance report (see paragraph A68).
<b>Grants and capital grants</b>		
Insignificant grants received	Record as revenue when cash received.	Revenue recognition shall not be deferred even if insignificant grants with expectations over use are significant in the aggregate.
Significant grants, received with no expectations over use	Record as revenue when cash received.	Revenue recognition shall not be deferred even if the reporting entity expects to spend the funds received on related expenditures in future periods.

REPORTING REQUIREMENTS FOR TIER 3 NOT-FOR-PROFIT ENTITIES

Source	When to Record	Comments
Significant grants received with expectations over use	On receipt of grant, record asset for funding received (generally cash) and a matching deferred revenue balance. As or when the expectations over use are met, the deferred revenue balance is reduced and revenue is recorded.	The deferred revenue balance as at balance date reflects the extent to which the expectations over use (as established and documented by the resource provider) have not yet been satisfied.  Judgement will be required to determine an appropriate approach for determining the point in time at which, or the period over which, the documented expectations are satisfied.
<b>Funding from government service delivery grants/contracts</b>		
Revenue from the provision of services (including fees and charges relating to services delivered across the year)	Record as revenue by reference to the stage of completion of the services at balance date, based on the actual service provided as a percentage of the total service to be provided.	The stage of completion of a service may be determined in many ways including: (a) On an event by event basis if that is the basis for charging; or (b) Services performed to date as a percentage of total services.
<b>Funding from non-government service delivery grants/contracts</b>		
Revenue from the provision of services (including fees and charges relating to services delivered across the year)	Record as revenue by reference to the stage of completion of the service at balance date, based on the actual service provided as a percentage of the total service to be provided.	The stage of completion of a service may be determined in many ways including: (a) On an event by event basis if that is the basis for charging; or (b) Services performed to date as a percentage of total services.
<b>Membership fees and subscriptions</b>		
Fees and subscriptions in exchange for goods or services or to purchase goods or services at prices lower than those charged to non-members	<i>If the goods or services are of similar value in each time period (for example, a monthly magazine or monthly access to members' facilities):</i> Record as revenue evenly over the period in which the items are provided to the members.  <i>If the goods or services vary in value from period to period:</i> Record as revenue proportionally on the basis of the value of each item in relation to the total estimated value of all items covered by the subscription.	Any fees or subscriptions received in advance of the period to which they relate should be recorded as a liability.
Other fees and subscriptions	Record as revenue when cash received.	Any fees or subscriptions received in advance of the period to which they relate should be recorded as a liability.
<b>Revenue from commercial activities</b>		
Sale of goods	Record as revenue when the goods are sold (this is usually when the goods are received by the purchaser).	If the purchaser pays before they receive their goods, the entity records a liability.  If the purchaser does not pay on receipt of the goods, the entity records a debtor.
Provision of services	Record as revenue by reference to the stage of completion of the service at balance date, based on the actual	The stage of completion of a service may be determined in many ways including:

REPORTING REQUIREMENTS FOR TIER 3 NOT-FOR-PROFIT ENTITIES

Source	When to Record	Comments
	service provided as a percentage of the total service to be provided.	(a) On an event by event basis if that is the basis for charging; or (b) Services performed to date as a percentage of total services.
<b>Interest, dividends and other investment revenue</b>		
Interest	Record as revenue as it is earned during the period.	If the borrower pays interest in advance, the entity records a liability being the amount of the advance payment.  If the borrower pays interest in arrears (after the investment period has elapsed), the entity records as an asset, any amount owed to the entity as a receivable.
Dividends and similar revenue	Record as revenue when receivable, for example when the dividend is declared (which would usually be before it is paid).	Dividends declared after the end of the financial year of the entity are not recorded as revenue.
<b>Other revenue</b>		
Lease or rental revenue	Record as revenue on a straight-line basis over the term of the agreement, unless another systematic basis is representative of the time pattern of the user's benefit.	If the lessee pays in advance, the entity (as lessor) records a liability being the amount of the advance payment.  If the lessee pays after the leased asset is used, the entity (as lessor) records as an asset any amount owed to the entity.
Licence fees and royalties	Record as revenue as they are earned in accordance with the substance of the relevant agreement.	As a practical matter, this may be on a straight-line basis over the term of the agreement.
Commission for acting on behalf of another entity as the agent of that other entity (the principal)	Record as revenue when receivable, which would usually be defined in the agency agreement.	Revenue includes only amounts received and receivable by the entity on its own account, not the amounts collected for the principal.
Gain on sale of an asset	Record as revenue when control of the asset transfers to the new owner.	The gain is the proceeds from the sale less the amount recorded as the value of the asset prior to its sale.

*Insignificant Donations, Grants and Bequests*

A62.1. Revenue from insignificant donations, grants and bequests is recorded when the funding is received.

*Significant Donations, Grants and Bequests With No Expectations Over Use*

A63. Where there are no expectations communicated from the resource provider about how the funds will be used, revenue from significant donations, grants and bequests is recorded when the funding is received.

*Significant Donations, Grants and Bequests With Expectations Over Use*

A64. [Deleted]

A65. Where there are documented expectations (identified in accordance with paragraph A65.1) about how or when the funds received from significant donations, grants (including capital grants) and bequests will be used, the reporting entity shall record the funds as deferred revenue. As or when the expectations over use are satisfied by the reporting entity, the deferred revenue balance is reduced, and revenue is recorded.

### Identifying Expectations

A65.1. An expectation over how or when the funding received from significant donations, grants and bequests will be used, for the purpose of paragraph A65 arises when:

- (a) the expectation is documented and agreed by both parties — being the resource provider (the funder) and the reporting entity (who receives the transfer of resources from the resource provider, typically in the form of a transfer of cash); and
- (b) the expectation as documented is specific enough to allow the reporting entity to reliably demonstrate to the resource provider when the expectation has been satisfied (regardless of whether the resource provider monitors the use of the funding provided or not).

A65.2. Examples of specific expectations include obligations to acquire or build a specific asset or assets (e.g. construct a building under the terms of a capital grant); or expectations that the funding will be used for the provision of specific goods or services to third-party beneficiaries, to cover general operating costs over a specified time period, or to support the delivery of specific programmes or activities.

A65.3. An expectation to use funds from significant donations, grants and bequests to support the general operating costs of the reporting entity over an unspecified period of time is not specific enough to allow for funding received to be recognised as deferred revenue. In these circumstances, revenue is recognised immediately when the funding is received.

A65.4. Internal expectations or decisions by those charged with governance about how or when the reporting entity expects to use funds received from donations, grants and bequests are not relevant when identifying expectations in accordance with paragraph A65.1.

A65.5. The expectation is documented when it has been agreed in writing between the reporting entity and the resource provider (or there is some other form of evidence to demonstrate this agreement). For an expectation to be both documented and agreed between the parties:

- (a) The resource provider has communicated the expectation to the entity within, for example, a formal contract, memo, letter or email; and
- (b) The entity has communicated acceptance of the expectation to the resource provider by, for example, signing the formal contract, memo or letter; or agreeing to the expectation via email.

A65.6. Where an application for funding sets out how or when the reporting entity expects to use the funds, then approval of the application by the resource provider is sufficient to demonstrate that there is agreement between both parties concerning the expectation over use.

### Timing of Revenue Recognition

A65.7. The timing of revenue recognition is dependent on the nature of the documented expectation over use. An expectation over use (identified in accordance with paragraph A65.1) will either be satisfied by the reporting entity at a point in time or over a period of time.

A65.8. The unit of account for the recognition of significant donations, grants and bequests with documented expectations over use, is each separate expectation identified. There may be multiple expectations attached to the funding, which will need to be accounted for separately when reducing the deferred revenue balance and recognising revenue.

A65.9. Judgement will be required to determine an appropriate revenue recognition approach for determining the point in time at which, or the period over which, the documented expectation is satisfied. The following are examples of expectations over the use of funds from significant donations, grants and bequests, and the different revenue recognition approaches that may be used.

- (a) Deliver specified goods or services to beneficiaries (e.g. to deliver 1,000 school lunches) – revenue could be recognised as the specified goods or services are delivered.
- (b) Purchase an asset (e.g. a vehicle) – revenue could be recognised at the time the asset is purchased.

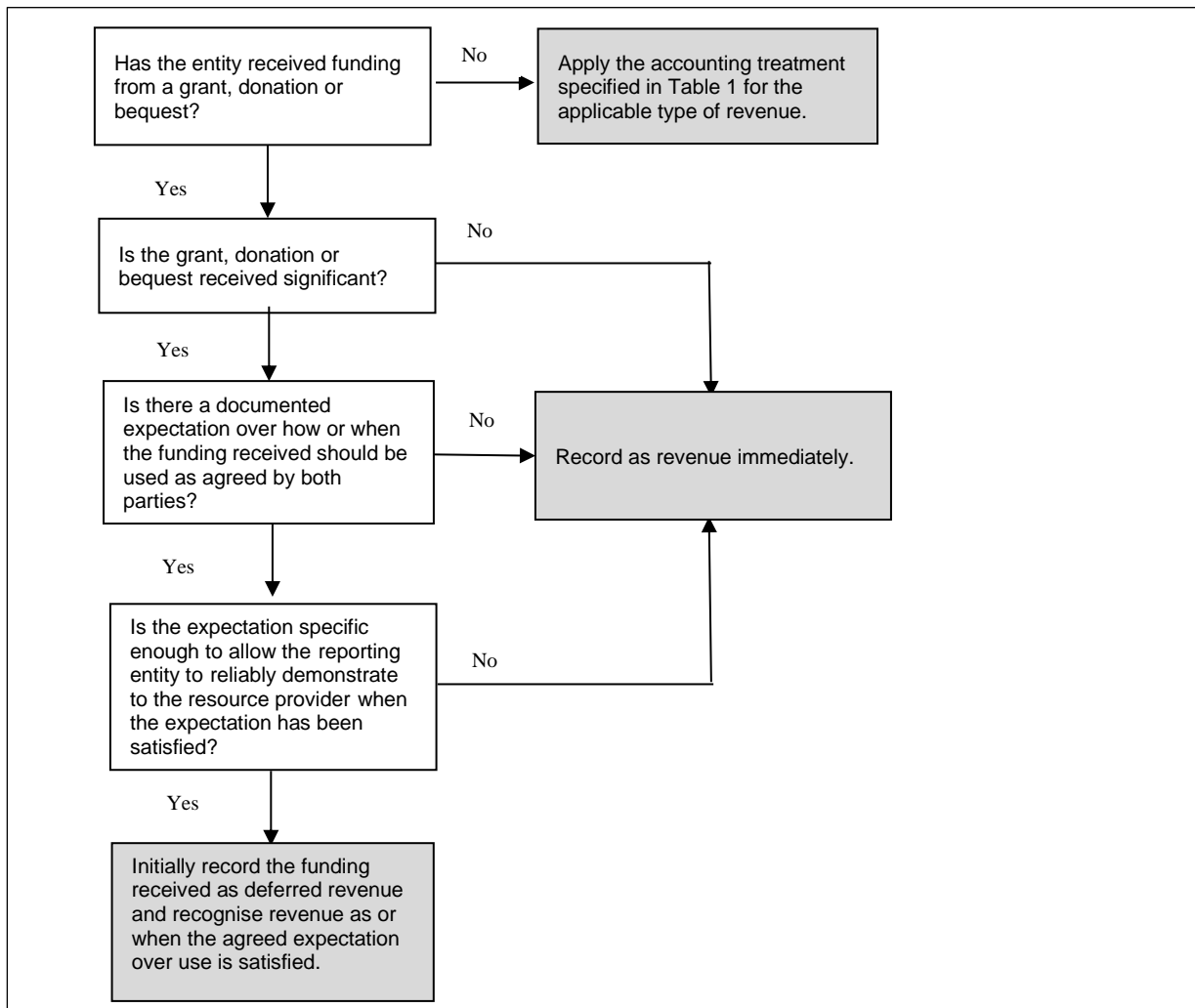


- (c) Construct an asset (e.g. building) – revenue could be recognised over the construction period (e.g. on a stage of completion basis).
- (d) Support general operating costs (over a specified time period, e.g., three years) – revenue could be recognised on a straight-line basis over the three-year period.
- (e) Host an event or deliver a specific programme or activity – revenue could be recognised on a stage of completion basis as the costs to host the event or deliver the specified programme or activity are incurred.

A66. [Deleted]

A67. Figure 1 provides an overview of the revenue recognition approach for donation, grant and bequest funding received.

**Figure 1: Decision Tree: Accounting for Grant, Donation and Bequest Revenue**



*Goods or Services in Kind*

A68. Entities shall not record as revenue goods or services received in kind, unless they are significant donated assets (see paragraph A111). However, entities shall provide information about significant goods or services received in kind in the notes to the performance report (see paragraph A189).

**Expenses**

A69. Expenses are the cash and other resource outflows from the entity, other than outflows to settle liabilities or purchase assets, or which are distributions of capital to owners (see paragraph A147)<sup>6</sup>.

A70. Expenses do not include prepayments. Executory contracts are also excluded (an executory contract is one where neither party has performed their obligation under the contract, for example, inventory that has been ordered but not received and therefore not paid for).

A71. Expenses include only amounts paid and payable by the entity on its own account. Amounts paid on behalf of others (that is, as agent of another entity) are not expenses of the entity (see paragraphs A83-A86).

<sup>6</sup> See the Glossary for a more detailed definition of expenses.

**Required Information**

- A72. In order to make information understandable to users, expenses shall be totalled (i.e., aggregated) and separately presented in categories. The following aggregated categories shall be reported separately in the statement of financial performance when applicable to the reporting entity:
- (a) Expenses related to fundraising;
  - (b) Employee remuneration and other related expenses;
  - (c) Volunteer related expenses;
  - (d) Expenses related to commercial activities ;
  - (e) Other expenses related to service delivery;
  - (f) Grants and donations made; and
  - (g) Other expenses.
- A73. Entities only need to report against a category specified in paragraph A72 when the category is applicable to the entity. If a category is not applicable the entity may omit that category from its performance report.
- A74. The categories may be described using terminology appropriate for the entity and need not use the titles used in paragraph A72, provided that the separate categories are still maintained.
- A75. If there is difficulty in determining the category that should be used for a particular transaction, the entity shall make its best estimate of the appropriate classification. This classification shall then be used consistently in future periods so that the information reported is comparable over time.
- A76. Reimbursements for expenses incurred by employees on behalf of the organisation are not classified as employee expenses. For example, reimbursing an airfare for an employee to attend a conference. This is recorded in the appropriate category of expenses (for example, other expenses related to the delivery of entity objectives if that was the reason the travel took place).
- A76.1. Category (b) in paragraph A72 above includes all remuneration paid to employees of the entity and all other costs directly related to their employment. Costs incurred for independent contractors are not included in category (b), they should instead be allocated to category (a), (d), (e), or (g) depending on the nature of the work carried out.
- A76.2. Category (e) in paragraph A72 above includes all costs attributable to providing goods and services, or carrying out activities in pursuit of the entity's stated purposes or objectives (excluding expenditure allocated to other categories).
- A76.3. Category (d) in paragraph A72 above includes all expenses attributable to commercial activities carried out the entity (excluding employee remuneration). In this context commercial activities means activities conducted by the entity with an intention to derive a surplus and which do not, in themselves, contribute to the achievement of an entity's stated purposes. Some activities which could be considered commercial in nature may be carried out on a smaller scale, or without the intention to engage in a commercial activity on an ongoing basis. In such cases these expenses would instead be considered fundraising expenses and therefore be included in category (a).

**Optional Information**

- A77. [Deleted]
- A78. [Deleted]
- A79. Further breakdowns or disaggregation of the categories in paragraph A72 may be provided in the notes to the performance report. For example, employee remuneration and volunteer and other employee expenses could be disaggregated into salaries and wages, employer superannuation contributions (for example, KiwiSaver) and other expenses relating to employees (for example,

ACC levies). The objective is to provide a breakdown that gives the most useful information to users of the performance report.

**Accounting for Expenses**

A80. Expenses shall be recorded on the occurrence of a recognition event. This is where there is a legal obligation to pay cash either now or sometime in the future (this is normally referred to as the point at which an expense is “incurred”). The timing of the recording of specific expense types is provided in Table 2.

**Table 2: Recording of Specific Types of Expenses**

Source	When to Record	Comments
<b>Expenses related to public fundraising</b>		
Advertising costs, printing of fundraising materials, staff training	Record the expense when the advertising service is received or the other expense is incurred.	This category would include expenses associated with seeking gifts or <u>public</u> donations.
Amounts paid to third party fundraisers	Record the expense when it is incurred.	
<b>Employee remuneration</b>		
Wages and salaries <u>and</u> annual leave	Record the expense as staff provide services and become entitled to wages and salaries and leave entitlements.	Amounts for leave entitlements are recorded as liabilities. Amounts deducted from staff wages and salaries and held to pay to a third party (for example, Inland Revenue, KiwiSaver) are recorded as liabilities.
Wages and salaries paid in advance	Record the expense when the staff provide services.	Record as an asset (prepayment) until the relevant services are provided.
Performance related bonuses	Record the expense when the employee is notified that the bonus has been granted.	
<b>Volunteer and other employee expenses</b>		
Honoraria	Record the expense when the honoraria are paid.	The payment of honoraria is usually discretionary so there is no obligation on the entity prior to payment.
Superannuation contributions	Record the expense as staff provide services.	This category comprises the entity’s contribution to KiwiSaver or other superannuation schemes on behalf of staff. Amounts not yet paid over are recorded as liabilities.
Vouchers provided to volunteers (such as petrol vouchers)	Record the expense when the voucher is purchased.	
Other (including ACC levies)	Record the expense in accordance with the relevant agreement.	Often recorded as an expense evenly over the period of the agreement.
<b>Other expenses related to the delivery of entity objectives</b>		
Administration and overhead costs	Record the expense when the cost is incurred.	Examples include premises rental, utilities (rates, power, phone), maintenance, IT costs, stationery etc.
Other costs associated with the delivery of services	Record the expense when the cost is incurred.	

REPORTING REQUIREMENTS FOR TIER 3 NOT-FOR-PROFIT ENTITIES

Source	When to Record	Comments
Purchase of inventory for sale or distribution	Record the expense when the goods are sold or distributed.	Where donated inventory is not recorded as an asset, there is no expense to record on sale or distribution.
Inventory written down or written off	Record the expense when it is determined that the amount on the statement of financial position is greater than the value of the inventory (either as a sale or a distribution).	Inventory may lose value as: (a) It ages (for example, fresh food); (b) Future customers would not pay as much for the inventory; (c) Stock becomes obsolete; and (d) The inventory is less valuable to service recipients.
<b>Expenses related to <u>commercial activities</u></b>		
Inventory sold or distributed	Record the expense when the goods are sold or distributed.	Where donated inventory is not recorded as an asset, there is no expense to record on sale or distribution.
Inventory written down or written off	Record the expense when it is determined that the amount on the statement of financial position is greater than the value of the inventory (either as a sale or a distribution).	Inventory may lose value as: (a) It ages (for example, fresh food); (b) Future customers would not pay as much for the inventory; (c) Stock becomes obsolete; and (d) The inventory is less valuable to service recipients.
Administration and overhead costs	Record the expense when the cost is incurred.	Examples include premises rental, utilities (rates, power, phone), maintenance, IT costs, stationery etc.
Other costs associated with the delivery of services	Record the expense when the cost is incurred.	
<b>Grants and donations made</b>		
Grants and donations made	Record the expense when the grant or donation has been approved and the recipient advised.	
<b>Other expenses</b>		
Affiliation fees	Record the expense when the fees are due to be paid.	
Interest expense	Record the expense as it is incurred during the period.	This category is the amount paid during the period which relates to borrowings. Includes any interest amount owing but not yet paid.

REPORTING REQUIREMENTS FOR TIER 3 NOT-FOR-PROFIT ENTITIES

Source	When to Record	Comments
Impairment charges (changes in the value of assets)  Reversal of an impairment charge recorded in a prior period	Record the expense when it is apparent that an asset is recorded at an amount that is greater than its net realisable value.  Reverse the expense when there is an indication that an impairment charge recorded in a prior period may no longer exist or may have decreased.  (see paragraphs A107.1 and A107.2)	The impairment expense is the amount by which the asset's recorded amount is reduced.  Impairment charges relate mostly to property, plant and equipment, inventory, and receivables (which become bad debts).  See also Table 3 for further discussion on impairment.
Depreciation	Record the expense at year end based on the established depreciation rate.	See also Table 3 for further discussion on depreciation.
Tax expense	Record the expense in the financial year to which the tax payable relates.	If a tax return is filed, record the tax payable at the amount in the tax return. Otherwise, record at an estimated amount.
Loss on sale of an asset	Record the expense when control of the asset transfers to the new owner.	The loss is the amount recorded as the value of the asset prior to its sale, less the proceeds from the sale.
Other expenses	Record the expense when it is incurred.	It may be useful to consider the above principles.

**Other Information**

**Required Information**

A81. The statement of financial performance shall include any additional information that the entity considers necessary for users to understand the financial performance of the entity.

**Optional Information**

A82. An entity may include the entity's budgets or plans for the current financial year if they are available.

**Amounts Payable or Receivable on Behalf of Others**

A83. Revenue and expenses include only the amounts relating to the entity on its own account, that is, where it is the "principal". Where the entity is acting as an "agent" for another party (for example, the Government<sup>7</sup>, another entity, or some other third party), the amounts collected or paid belong to that other party rather than the entity.

A84. An entity is a principal (that is, acting on its own behalf) when:

- (a) The entity has the primary responsibility for providing the goods or services to the beneficiary or customer;
- (b) The entity establishes the prices, either directly or indirectly, for those goods or services; and
- (c) The entity bears the customer's credit risk for any amount receivable from the customer.

A85. An example of the entity as principal is when the entity organises a conference for a group of NFP entities, receives the conference fees, and is responsible for all the conference-related payments such as advertising and catering.

A86. An entity is acting as an agent when it does not have exposure to the significant risks and rewards associated with the transactions. One feature indicating that an entity is acting as an agent is that

<sup>7</sup> For the purposes of this Standard, the collection and payment of GST or PAYE are not considered to be transactions undertaken by the entity as an agent.

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the amount the entity earns is predetermined, being either a fixed fee per transaction or a stated percentage of the amount billed to the customer.

## Section 6: Statement of Financial Position

### Purpose and Value to Users

A87. The purpose of the statement of financial position is to provide a snapshot of the entity's assets liabilities (what the entity owes) and accumulated funds (the difference between assets and liabilities) at a certain point in time (being the balance date). The statement provides users with information about the financial sustainability of the entity, including the assets that can be used to run the entity in the future, and the liabilities that will have to be settled in future periods.

### Format of Statement of Financial Position

#### Required Information

A88. The statement of financial position shall be presented as follows:

Assets (by category)	xx
Less Liabilities (by category)	xx
Assets less Liabilities	xx
Accumulated Funds (by category)	xx

A89. [Deleted]

A90. [Deleted]

#### Assets

A91. Assets are resources of the entity that are expected to provide benefits to the entity in the future<sup>8</sup>.

#### Required Information

A92. In order to make information understandable to users, assets shall be totalled (i.e., aggregated) and presented separately in categories. The following aggregated categories shall be reported separately and split between current and non-current (see paragraph A102):

- (a) Cash and short-term deposits;
- (b) Debtors and prepayments;
- (c) Inventory;
- (d) Property, plant and equipment; and
- (e) Investments.

A93. Cash and short-term deposits comprise petty cash, cheque or savings accounts, and deposits held at call or with a maturity of three months or less from the date purchased.

A94. Debtors (sometimes called accounts receivable) comprise amounts owed to the entity by customers or others. This includes any GST receivable from Inland Revenue.

A95. Prepayments are expenses paid in advance of a good or service being received by the entity (such as rent, insurance or salaries and wages).

A96. Inventories are materials or supplies that are to be consumed in producing goods or services, held for sale or distribution in the ordinary course of operations, or are in the process of production for sale or distribution. Inventories may include food, clothing or goods held for distribution, stocks held in charity shops, information brochures printed for the entity but not yet distributed, goods purchased for resale, consumable stores, maintenance materials, spare parts for plant and equipment, and work-in-progress, such as educational/training course materials under development.

<sup>8</sup> See the Glossary for a more detailed definition of assets.



- A97. Property, plant, and equipment (sometimes called fixed assets) are tangible items that are used in the production or supply of goods or services, or for administrative purposes, and are expected to be used during more than one financial year.
- A98. Investments are shares, term deposits (with a maturity of more than three months from the date purchased), bonds, units in unit trusts, or similar instruments held by the entity.
- A99. Entities only need to report the categories specified in paragraph A92 separately when the category is applicable and significant to the entity.
- A100. The categories may be described using terminology appropriate for the entity and need not use the titles used in paragraph A92, provided that the separate categories are still maintained.
- A101. If there is difficulty in determining the category that should be used for a particular transaction, the entity shall make its best estimate of the appropriate classification. This classification shall then be used consistently in future periods so that the information reported is comparable over time.
- A102. In presenting the statement of financial position the entity shall identify those assets which are intended to be converted to cash within 12 months of the balance date, for example, debtors that are expected to be collected within a few months of balance date, or inventories that are expected to be sold or used within the next year. These shall then be classified as “current assets”. The remaining assets shall then be classified as “non-current assets”.

**Optional Information**

A103. [Deleted].

A104. [Deleted]

A105. Additional categories to those in paragraph A92 may be presented in the statement of financial position where doing so is necessary to provide users with an understanding of the main assets of the entity. Too many categories can make it difficult for users to understand the overall picture. The number of additional categories used should therefore be limited to those that are really necessary.

A106. Breakdowns or disaggregation of the categories in paragraph A92 may be provided in the notes to the performance report, for example, classes of property, plant and equipment, or different types of inventory (such as inventories held for consumption versus inventories held for sale). The objective is to provide a breakdown that gives the most useful information to users of the performance report.

**Accounting for Assets**

A107. Assets shall be recorded on the occurrence of a recognition event and reported using the measurement basis appropriate for the asset type. Details for recording and measuring specific asset types are provided in Table 3.

**Table 3: Recording of Specific Types of Asset**

<b>Cash and Short-term Deposits (note: bank overdrafts should be separately recorded as a liability)</b>	
When to record	When the cash is received (either in hand or in the bank account).
Measurement	At the amount held.
<b>Debtors</b>	
When to record	When action is taken (such as goods or services sold) to give the entity the right to collect cash in the future.  Compensation due from third parties (such as insurers) for assets that were impaired, lost, or given up should also be recorded as a debtor (and included as revenue in the statement of financial performance).
Initial measurement	At the amount owed.

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When to record impairment	When it is likely that the amount owed (or some portion) will not be collected. Record the loss as a bad debt expense.
Change measurement at balance date	Consider whether any amounts are impaired (see paragraph A108). If the entity charges interest on overdue amounts, add this to the amount of the debtor and record revenue.
When to no longer record	When amount is collected or written off.
<b>Prepayments</b>	
When to record	When payment made.
Initial measurement	At the amount relating to the future goods or services to be received.
When to record impairment	If the entity is unlikely to get the service it has paid for.
Change measurement at balance date	Re-measure at the amount relating to the future services still to be received at that date.
When to no longer record (when to expense)	Once the entity receives the benefit for which it has paid, the prepayment (or portion thereof), is transferred from prepayments and is recorded as an expense.
<b>Inventories</b>	
When to record	When acquired.
Measurement	Purchased inventories: At cost.
When to record impairment	<i>Goods for sale:</i> Write-down to lower of cost and selling price. <i>Goods for use or distribution:</i> Write-down if the value to the entity decreases (for example, materials to be distributed are out of date or damaged).
Change measurement at balance date	Only if impaired.
When to no longer record (when to expense)	When sold, distributed or written off.
<b>Property, Plant and Equipment (including Heritage Assets)</b>	
When to record	When purchased or donated.
Initial measurement	<i>Purchased:</i> Cost (cash price equivalent). <i>Donated:</i> Current value (such as <u>local council rateable value</u> ).
When to record impairment	<i>Asset to be sold:</i> If the market price for an equivalent asset falls below the carrying amount of the asset. <i>Asset to be used:</i> If the value to the entity in using the asset falls below the carrying amount of the asset (for example, the entity no longer provides the service supported by the asset).
Change measurement at balance date	<i>Record depreciation:</i> spread the cost of the asset over the expected useful life of the asset, using a structured method such as straight line or diminishing value. Note that land is not depreciated. <i>For classes of asset that the entity elects to revalue:</i> record revaluation gains/losses
When to no longer record	When sold, otherwise disposed of or written off.
<b>Investments</b>	
When to record	When purchased.
Initial measurement	At the amount paid.
When to record impairment	If it appears that the carrying amount of the investment will not be recovered, it shall be written down to the current market price.

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Change measurement at balance date	If the current market price falls below cost. <u>For publicly traded investments the entity elects to measure at current value: record increases/decreases in current value.</u>
When to no longer record	When sold, otherwise disposed of, or written off.
<b>Other Assets</b>	
When to record	When: (a) The asset is acquired; and (b) The asset has a cost or value that can be measured reliably <sup>(a)</sup> .
Initial measurement	At the amount paid or other value that can be measured reliably.
When to record impairment	If it appears that the carrying amount of the asset will not be recovered, that is, it is more than the current market value (if it can be determined).
When to no longer record	When the asset is sold or otherwise disposed of.
(a) Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent.	

*Reversal of Impairment Charges*

A107.1 If there is any indication that an impairment charge recorded in prior periods for an asset:

- (a) May no longer exist; or
- (b) May have decreased (i.e. if it is apparent that an asset is recorded at an amount that is less than its net realisable value);

an entity shall reverse all or part of that impairment charge.

A107.2 The reversal of the impairment charge shall:

- (a) In the case of inventories, be limited to the amount of the original write-down;
- (b) In the case of investments, not result in the carrying amount of the asset being recorded at more than its original cost; and
- (c) In the case of property, plant and equipment, not result in the carrying amount of the asset (net of depreciation) being recorded at more than it would have been had the impairment not been recorded.

*Calculating Debtors*

A108. In calculating the value of debtors at the end of each financial year, the entity shall assess whether there is evidence that a receivable may not be collected. The factors to consider are:

- (a) Financial difficulty of the other party;
- (b) A breach of contract by the other party, such as a default in interest or principal payments;
- (c) The entity granting to the other party a concession relating to debt payment; or
- (d) Other information indicating that the receivable may not be collected.

*Heritage Assets*

A109. Some classes of property, plant and equipment may be described as heritage assets because of their cultural, environmental, or historical significance. Examples of heritage assets include historical buildings and monuments, archaeological sites, conservation areas and nature reserves, and works of art.

A110. Heritage assets shall be accounted for in the same manner as other property, plant and equipment (that is, at cost or if donated then at readily obtainable current values). Heritage assets for which current values are not readily obtainable, do not need to be recorded in the statement

of financial position but shall be disclosed in the notes to the performance report (by class if appropriate).

*Donated Assets*

A111. Significant donated assets, such as significant items of property, plant and equipment, shall be recorded at readily obtainable current values (such as local council rateable value for land and buildings), where it is reasonably possible to obtain such current values.

A112. Significant donated assets for which values are not readily obtainable, do not need to be recorded in the statement of financial position but shall be disclosed in the notes to the performance report (by class if appropriate).

*Revaluation of Property, Plant and Equipment*

A113. As specified in Table 3, purchased property, plant and equipment is generally measured on a cost basis. However, an entity may elect to revalue a class of property, plant and equipment. Entities are more likely to make such an election when the value of an asset is expected to increase over that asset's life.

A113.1. When electing to apply a revaluation approach, the subsequent measurement approach shall be applied to all assets within that class of property, plant, and equipment.

A113.2. A class of property, plant, and equipment is a grouping of assets of a similar nature or function. Possible classes of property, plant and equipment are:

- (a) Land;
- (b) Buildings;
- (c) Motor vehicles;
- (d) Furniture and fixtures;
- (e) Office equipment;
- (f) Computers (including software); and
- (g) Machinery.

A114. When an entity elects to revalue a class of property, plant and equipment, it shall measure an item of property, plant and equipment at its current value less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

A114.1. When a revaluation approach is applied, the current value shall be based on a valuation by a suitably qualified independent valuer or, for land and buildings, a local council rateable value may be used.

A114.2. Where an entity elects to revalue a class of property, plant and equipment, it is still required to recognise depreciation on the individual assets. In such cases, depreciation shall be calculated based on the revalued amount from the date of the asset's most recent revaluation.

A115. Electing to revalue a class of property, plant and equipment after initial recognition of the purchased asset, is an accounting policy choice. Therefore, once a class of property, plant and equipment is revalued the entity will need to continue measuring that class of assets at revalued amounts thereafter (rather than reverting to asset cost).

A115.1. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using current value at the reporting date.

A115.2. Where an entity elects to revalue its land and buildings based on a local council rateable value it is only required to revalue its land and buildings when that value is updated. The entity shall also disclose, in the notes to the performance report, that the local council rateable value may not reflect current market value.

A116. If the entity chooses not to revalue property, plant and equipment but considers that a current value of some assets is useful information for users of the performance report, the entity may

choose to disclose that current value, and the basis (valuation by an independent valuer or the local council rateable value) and date of that valuation in the notes to the performance report.

A116.1. If an entity elects to revalue a class of assets it shall:

- (a) Present a separate revaluation reserve within accumulated funds in the statement of financial position and the notes to the performance report (see paragraph A143);
- (b) Recognise revaluation gains for the class as “Gains/(losses) on the revaluation of property, plant and equipment” directly in accumulated funds through a separate revaluation reserve, unless they reverse an impairment charge recognised in a prior period (see Table 3 and paragraphs A107.1 and A107.2);
- (c) Recognise revaluation losses for the class as an expense in the statement of financial performance, except to the extent to which these losses offset any previous revaluation gains. If the revaluation losses offset previous revaluation gains they are recognised as “Gains/(losses) on the revaluation of property, plant and equipment” directly in accumulated funds through the associated revaluation reserve; and
- (d) Recognise any gains on disposal over the carrying amount within other revenue in the statement of financial performance as “Gains/(losses) on disposal of property, plant and equipment”.

A116.2. For the purpose of applying paragraph A116.1 revaluation gains and losses relating to individual assets of the revalued class of property, plant and equipment shall be offset against other assets of that class but shall not be offset against assets of different classes.

A116.3. Some or all of the revaluation gains included in net assets/accumulated funds in respect of property, plant and equipment may be transferred directly to accumulated surpluses or deficits when the assets are derecognised. This may involve transferring some or the whole of the gains when the assets of the revalued class of property, plant and equipment to which they relate are retired or disposed of. Transfers from the revaluation reserve to accumulated surpluses or deficits are not made through the statement of financial performance.

A116.4. If items of property, plant and equipment are stated at revalued amounts, an entity shall disclose the following in the notes to the performance report:

- (a) The basis (valuation by a suitably qualified independent valuer or current local council rateable value);
- (b) The date of the valuation; and
- (c) The revaluation gain/loss for the period that has been recognised in the revaluation reserve.

#### Investment property

A116.5. Some classes of property, plant and equipment may be described as investment property because they are held primarily by the entity to generate rental income or for capital gains rather than for use in the entity’s ordinary activities.

A116.6. Investment property shall be accounted for in the same manner as other items of property, plant and equipment (see Table 3 and paragraphs A113 – A116.4). This means that an entity can choose to account for investment property on a cost or revaluation basis. An entity may elect to present investment property as a separate class of property, plant and equipment.

#### Investments

A116.7. As specified in Table 3, investments are to be measured at the amount paid when purchased, less any impairment. However, where an entity holds investments which are publicly traded it may elect to measure that class of investment at its current market value.

A116.8. If an entity elects to measure publicly traded investments at current market value, it shall:

- (a) Present a separate revaluation reserve within accumulated funds in the statement of financial position and the notes to the performance report (see paragraph A143);

- (b) Recognise revaluation gains for the investments as “Gains/(losses) on the revaluation of publicly traded investments” directly in accumulated funds through a separate revaluation reserve, unless they reverse an impairment charge recognised in a prior period (see Table 3 and paragraphs A107.1 and A107.2);
- (c) Recognise revaluation losses for the investment as an expense in the statement of financial performance, except to the extent to which these losses offset any previous revaluation gains. If the revaluation losses offset previous revaluation gains they are recognised as “Gains/(losses) on the revaluation of publicly traded investments” directly in accumulated funds through the associated revaluation reserve; and
- (d) Recognise any gains on disposal over the carrying amount within other revenue in the statement of financial performance as “Gains/(losses) on disposal of publicly traded investments”.

A116.9. If investments are reported at current market value an entity shall disclose:

- (a) The accounting policies for investments, including the basis on which current market value was determined (for example, NZX-quoted price at the balance date).
- (b) In the notes to the performance report, an analysis of investments by class reconciling the opening and closing carrying amounts of each class of investment held, with those held at current market value being identified separately from those held at cost less impairment.

#### *Assets Held on Behalf of Others*

A117. Assets held as an agent on behalf of another person, entity or other third parties are not recorded as assets of the entity. The statement of financial position should include only assets held by the entity on its own account as principal (see paragraphs A83 – A86 for a discussion on principals and agents).

#### **Liabilities**

A118. Liabilities are the amounts owed by the entity at balance date<sup>9</sup>.

#### **Required Information**

A119. In order to make information understandable to users, liabilities shall be totalled (i.e., aggregated) and presented separately in categories. The following aggregated categories shall be reported separately and split between current and non-current (see paragraph A128):

- (a) Bank overdraft;
- (b) Creditors and accrued expenses;
- (c) Employee costs payable;
- (d) Deferred revenue; and
- (e) Loans.

A120. Creditors (sometimes called accounts payable) are amounts owing to suppliers to pay for goods or services that have been acquired in the course of the entity’s operations. GST payable to Inland Revenue is also part of creditors.

A121. Accrued expenses are costs incurred but not yet paid. This includes electricity, gas, telephone services used but not yet paid, water and local authority rates payable but not yet paid, and rent for the use of premises not yet paid.

A122. Employee costs payable are amounts owing to, but not yet paid to employees. This category includes wages and salaries earned but not yet paid, holidays earned but not yet taken (holiday pay accrual), ACC contributions owing, PAYE withheld from employees’ remuneration but not yet paid over to Inland Revenue, and contributions to superannuation schemes (such as KiwiSaver) or other post-employment benefit schemes collected but not paid over.

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<sup>9</sup> See the Glossary for a more detailed definition of liabilities.

A123. [Deleted]

A124. Loans are amounts borrowed by the entity.

A125. Entities need report only the categories specified in paragraph A119 separately when the category is applicable and significant to the entity.

A126. The categories may be described using terminology appropriate for the entity and need not use the titles used in paragraph A119, provided that the separate categories are still maintained.

A127. If there is difficulty in determining the category that should be used for a particular transaction, the entity shall make its best estimate of the appropriate classification. This classification shall then be used consistently in future periods so that the information reported is comparable over time.

A128. In presenting the statement of financial position the entity shall identify those liabilities which are due to be paid within 12 months of the balance date, which shall then be classified as “current liabilities”. The remaining liabilities shall then be classified as “non-current liabilities”.

A128.1. The balance of deferred revenue with respect to unsatisfied resource provider expectations over significant donation, grant and bequest funding at balance date shall be reported as a category of liabilities in the statement of financial position.

**Optional Information**

A129. [Deleted]

A130. Additional categories to those in paragraph A119 may be presented in the statement of financial position where doing so is necessary to provide users with an understanding of the main liabilities of the entity. Too many categories can make it difficult for users to understand the overall picture. The number of additional categories used should therefore be limited to those that are really necessary.

A131. Breakdowns or disaggregation of the categories in paragraph A119 may be provided in the notes to the performance report, for example, a breakdown of loans. The objective is to provide a breakdown that gives the most useful information to users of the performance report.

**Accounting for Liabilities**

A132. Liabilities shall be recorded on the occurrence of a recognition event and reported using the measurement basis appropriate for the liability type. Details for recording and measuring specific liability types are provided in Table 4.

**Table 4: Recording of Specific Types of Liability**

<b>Bank Overdraft</b>	
When to record	When the overdraft occurs.
Measurement	At the amount of the actual overdraft (not the overdraft facility).
<b>Creditors and Accrued Expenses</b>	
When to record	When transaction occurs that creates the payment obligation, for example on the receipt of goods or services from a supplier.
Initial measurement	At the amount owing. If the entity has not received a supplier invoice it shall record an accrual for an estimate of the amount to be paid
Change measurement at balance date	Review in case some part has been paid or is no longer owed (for example, a supplier changes the arrangement to donations of goods therefore revenue will be recorded).
When to no longer record	When settled.
<b>Employee Costs Payable</b>	
When to record	When an employee has earned the entitlement or the entity has withheld amounts from wages and salaries already paid. It is uncommon for entities with paid employees to have no employee costs payable.

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Initial measurement	At the amount to be paid.
Change measurement at balance date	If employees have been granted increased wages and salaries, amounts owing may change (for example, annual leave is based on amounts to be paid when the employee is expected to take the leave).
When to no longer record	When settled.
<b>Deferred Revenue</b>	
When to record	When a significant donation, grant or bequest with expectations over use is received.
Initial measurement	At the amount of the donation, grant or bequest received.
Change measurement at balance date	Assess whether (or to what extent) expectations over use have been satisfied. If expectations have not been fully satisfied, assess the amount of the donation, grant or bequest that relates to expectations which have not yet been satisfied.
When to no longer record	When the expectations over use are satisfied.
<b>Provisions</b>	
When to record	When an event has occurred that leads to an obligation.
Initial measurement	At the entity's best estimate of the amount to be paid.
Change measurement at balance date	Review the estimate of the amount of the obligation in light of conditions at balance date.
When to no longer record	When no obligation remains.
<b>Loans</b>	
When to record	When the amount borrowed has been received.
Initial measurement	At the amount borrowed from the lender (usually referred to as the loan principal).
Change measurement at balance date	Include any loan principal outstanding and any interest owing that has not yet been paid.
When to no longer record	When all principal and interest has been paid.

*Provisions*

A133. A provision is a liability of uncertain timing or amount. For example, an entity's lease of office premises may contain conditions that require the premises to be renovated at the end of the lease, so a provision for this is established.

A134. A provision shall be recorded as a liability when:

- (a) The entity has a present obligation (legal or constructive) as a result of a past event;
- (b) It is probable that the entity will have to settle the obligation; and
- (c) The entity can make a reliable estimate of the amount of the obligation.

A135. The use of estimates is an essential part of the preparation of performance reports, and does not undermine their reliability. This is especially true in the case of provisions, which by their nature are more uncertain than most other liabilities. Except in extremely rare cases, an entity should be able to make an estimate of the obligation that is sufficiently reliable to use in recording a provision.

*Possible Future Liabilities*

A136. The only liabilities recorded in an entity's statement of financial position are those where obligations exist at the balance date as a result of a past event. Therefore, no provision should be made for liabilities that might result from a future event as these liabilities don't yet exist. For



example, costs likely to be incurred in the future in order to continue an entity's activities in the future are not liabilities. Neither are expected future operating losses.

#### *Contingent Liabilities*

A137. Contingent liabilities are not recorded in the statement of financial position but are reported in the notes to the performance report (see paragraphs A199–A201).

#### **Accumulated Funds**

A138. The accumulated funds balance is the difference between the assets and liabilities of the entity. It is therefore the component that balances the statement of financial position. The accumulated funds balance represents the net assets available to the entity to fulfil its objectives in the future. In the for-profit sector the equivalent term is equity.

A138.1. Movements in accumulated funds include the surplus or deficit for the year, revaluation reserve movements, and other transactions directly with owners in their capacity as owners. In general, transactions with owners (described as capital contributed by owners in paragraph A140 below) are uncommon for not-for-profit entities and most transactions are recorded through the statement of financial performance rather than directly through the Accumulated Funds balance.

A138.2. For the purposes of applying the requirements in this Standard, the term "owners" specifically refers to those who have made capital contributions as described in paragraph A140 below. The term "owners" can include individuals or other entities.

#### **Required Information**

A139. In order to make information understandable to users, the balance of accumulated funds shall be aggregated and presented separately in categories. The following aggregated categories shall be reported separately, where they are applicable to the entity:

- (a) Capital contributed by owners (if any);
- (b) Accumulated surpluses or deficits;
- (c) Reserves:
  - (i) Restricted reserves;
  - (ii) Discretionary reserves;
  - (iii) Revaluation reserves; and
  - (iv) Other reserves.

A139.1. When an entity elects to apply the requirements of a Tier 2 PBE Standard to a specific type of transaction, in accordance with the requirements set out in Appendix C of this Standard, it may be required to present additional categories of accumulated funds balances based on the requirements of the Tier 2 PBE Standard applied.

A140. The capital contributed by owners category represents contributions to the entity by owners in their capacity as owners that:

- (a) Convey to owners the entitlement to:
  - (i) Distributions by the entity during its life; and/or
  - (ii) Distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or
- (b) Give the owner a voice in the management of the entity as an owner; and/or
- (c) Can be sold, exchanged, transferred, or redeemed.

A141. [Deleted]

A142. The accumulated surpluses or deficits category represents the total of all the surpluses and deficits from the commencement of the entity, excluding any transactions with owners in their capacity as owners/ (if any), and amounts transferred to other reserves.

A143. Reserves are of four types:

- (a) Restricted reserves which may be used only for a particular purpose (the restriction). The restriction may apply to the use of revenue from the funds such as interest received, or to changes to the capital fund, or to both. To be a restricted reserve the restriction must be set by an external party, and must not be able to be satisfied (if the condition can be satisfied, it is likely the funds will meet the criteria for recognition as deferred revenue, see paragraphs A65 – A67) for example:
  - (i) A bequest which specifies that the funds received may only be invested and that any investment returns may be used as the entity sees fit.
  - (ii) [Deleted]
  - (iii) [Deleted]
- (b) Discretionary reserves that have been created by a transfer from accumulated surpluses or deficits as an internal decision of the entity so that it sets aside resources for a particular purpose. A feature of this type of reserves is that they may be transferred back to accumulated surpluses or deficits whenever the entity chooses.
- (c) Revaluation reserves which represent the increase in value of items of property, plant and equipment over their carrying amounts (where an entity has elected to measure such items at revalued amounts).
- (d) Other reserves which have been created to present the effect of transactions recognised directly in accumulated funds as a result of the entity electing to apply the requirements of a Tier 2 PBE Standard in lieu of the requirements in this Standard (refer to Appendix C).

A144. Entities need report only the minimum categories specified in paragraph A139 separately when the category is applicable to the entity.

A145. The minimum categories may be described using terminology appropriate for the entity and need not use the titles used in paragraph A139, provided that the separate categories are still maintained.

### ***Accounting for Accumulated Funds***

A146. Capital contributed by owners shall be recorded at the amount received or paid to owners in their capacity as owners.

A147. Accumulated surpluses or deficits shall be recorded at the opening balance plus the current period's surplus or deficit from the statement of financial performance, plus any transfers to/from reserves.

A148. Reserves shall be recorded as follows:

- (a) Restricted and discretionary reserves shall be recorded at the opening balance of the reserve plus/minus transfers to/from accumulated surpluses or deficits.
- (b) Revaluation reserves shall be recorded at the opening balance of the reserve plus/minus the increase/decrease in value of each class of property, plant and equipment required to be recognised directly in accumulated funds (where an entity has elected to measure such items at revalued amounts).
- (c) Other reserves shall be recorded at the opening balance of the reserve plus/minus any amounts required to be recognised directly in accumulated funds as a result of an entity electing to apply the requirements of a Tier 2 PBE Standard in lieu of the requirements in this Standard (refer to Appendix C).

### **Approval and Issue of Performance Report**

A148.1 It is important for users to know when the performance report was authorised for issue, as the performance report does not reflect events after this date. The performance report is authorised for issue when it is signed and dated by the body or individuals with the authority to approve the performance report for issue.

***Required Information***

A148.2 An entity shall disclose in the performance report the date the performance report was approved and authorised for issue, who gave that authorisation and the relevant signature(s).

**Other Information**

***Required Information***

A149. The statement of financial position shall include any additional information that the entity considers necessary for users to understand the financial position of the entity.

***Optional Information***

A150. An entity may include the entity's budgets or plans for the current financial year if they are available.

**Section 7: Statement of Cash Flows**

**Purpose and Value to Users**

A151. The purpose of the statement of cash flows is to provide information about the cash flows of the entity, which can have a different timing to the accruals that are reported in the statement of financial performance. Cash flow information allows users to determine how much cash the entity has received, and how the cash was used during the year. An understanding of an entity’s cash flows is helpful to users in making decisions about the sustainability of the entity and whether funds received have been appropriately spent on advancing the entity’s objectives.

A152. [Deleted]

**Format of Statement of Cash Flows**

**Required Information**

A153. The statement of cash flows shall be presented as follows:

Cash Flows from Operating Activities (by category)	xx
Cash Flows from Other Activities (by category)	xx
Net Increase/(Decrease) in Cash	xx
Add Opening Cash Balance	xx
Closing Cash Balance	xx

A154. [Deleted]

A155. Other activities are the acquisition and disposal of long-term assets and other investments not included in the cash balance. For example, the purchase of property, plant and equipment, or investments. It also comprises receipts and payments relating to long-term borrowing by the entity (the principal amount only), and any capital contributions to/from owners (if any).

A156. Operating activities are the activities of the entity that are carried out as part of its normal operations, for example, the funding received and the costs paid in delivery of the entity’s objectives

A157. The statement of cash flows does not include:

- (a) Cash receipts collected and payments made on behalf of others when the cash flows reflect the activities of the other party rather than those of the entity (see paragraphs A83–A86). For example, rent collected on behalf of, and paid over to, the owners of properties; and
- (b) Transactions not involving cash, for example depreciation and donated goods or services.

**Cash Flows from Operating Activities**

**Required Information**

A158. In order to make information understandable to users, cash flows from operating activities shall be aggregated and presented separately in categories. The following aggregated categories shall be reported separately:

*Cash Received:*

- (a) Donations, koha, bequests and other general fundraising activities ;
- (b) General grants and other receipts from service delivery;
- (c) Capital grants and donations;
- (d) Government service delivery grants/contracts;
- (e) Non-government service delivery grants/contracts;
- (f) Membership fees and subscriptions;
- (g) Gross sales from commercial activities;

- (h) Interest, dividends and other investment receipts; and
- (i) Other cash received.

*Cash Payments:*

- (j) Payments related to public fundraising;
- (k) Employee remuneration and other related payments;
- (l) Volunteer related payments;
- (m) Payments related to commercial activities;
- (n) Other payments related to delivery of the entity objectives;
- (o) Grants and donations paid; and
- (p) Other payments.

A159. Entities only need to report against a category specified in paragraph A158 when the category is applicable to the entity. If a category is not applicable, the entity may omit that category from its performance report.

A160. The categories may be described using terminology appropriate for the entity and need not use the titles used in paragraph A158, provided that the separate categories are still maintained.

A161. If there is difficulty in determining the category that should be used for a particular transaction, the entity shall make its best estimate of the appropriate classification. This classification shall then be used consistently in future periods so that the information reported is comparable over time.

A162. [Deleted]

A163. [Deleted]

A164. Further breakdowns or disaggregation of the categories in paragraph A158 may be provided in the notes to the performance report, for example, a breakdown of cash payments related to the entity's main activities. The objective is to provide a breakdown that gives the most useful information to users of the performance report.

**Cash Flows from Other Activities**

***Required Information***

A165. In order to make information understandable to users, cash flows from other activities shall be aggregated and presented separately in categories. The following aggregated categories shall be reported separately:

*Cash Received:*

- (a) Sale of property, plant and equipment;
- (b) Sale of investments;
- (c) Cash drawn down from loans borrowed from other parties;
- (d) Cash received from owners (capital contributions); and
- (e) Capital grants

*Cash Payments:*

- (f) Payments to acquire property, plant and equipment;
- (g) Payments to purchase investments;
- (h) Repayments of loans borrowed from other parties; and
- (i) Capital distributed to owners.

- A166. Investments are shares, term deposits (with a maturity greater than 3 months), fixed interest bonds, units in unit trusts, or similar instruments held by the entity. Investments also include loans made to other entities.
- A167. Entities only need to report against a category specified in paragraph A165 when the category is applicable to the entity. If a category is not applicable, the entity may omit that category from its performance report.
- A168. The categories may be described using terminology appropriate for the entity and need not use the titles used in paragraph A165, provided that the separate categories are still maintained.
- A169. If there is difficulty in determining the category that should be used for a particular transaction, the entity shall make its best estimate of the appropriate classification. This classification shall then be used consistently in future periods so that the information reported is comparable over time.

## **Cash Balances**

### ***Required Information***

- A170. Cash balances is the same amount reported as “cash and short-term deposits” less bank overdrafts as reported in the statement of financial position. It includes petty cash, cheque or savings accounts, at call deposits with banks or term deposits with a maturity of three months or less from the date purchased, and bank overdrafts (see paragraph A93).

## Section 8: Statement of Accounting Policies

### Purpose and Value to Users

A171. The purpose of the statement of accounting policies is to disclose the specific policies and practices applied by the entity in preparing its performance report. This provides users with an understanding of the basis on which the performance report has been prepared.

### Format of Statement of Accounting Policies

#### *Required Information*

A172. The statement of accounting policies shall comprise two components:

- (a) Accounting policies applied; and
- (b) Changes in accounting policies.

### Accounting Policies Applied

A173. Accounting policies applied are the specific policies and practices used by the entity in preparing its performance report for the reporting period.

#### *Required Information*

A174. As a **minimum**, the following shall be included in the statement of accounting policies.

#### *Basis of Preparation*

A175. The statement of accounting policies shall disclose that:

- (a) The entity is eligible to apply this Standard, the criteria specified in XRB A1 that allows it to do so, and the fact that it has elected to do so;
- (b) All transactions are reported using the accrual basis of accounting; and
- (c) The performance report has been prepared on the assumption that the reporting entity is a going concern, or if this is not the case the fact that the performance report has been prepared on the basis that the entity will not continue to operate for more than 12 months in the future (see paragraph A176).

A176. The performance report is normally prepared assuming that the entity will continue in operation for the foreseeable future (normally considered to be a minimum of 12 months from balance date). This assumption may not be appropriate in some circumstances. For example, it may not be appropriate if the governing body determines after the balance date either (a) that there is an intention to liquidate the entity or to cease operating, or (b) that there is no realistic alternative but to do so. If the assumption of continuity is not appropriate this needs to be disclosed in the statement of accounting policies (additional disclosures are also required in the notes to the performance report – see paragraph A210). The entity shall consider whether different specific accounting policies are more appropriate in these circumstances, for example valuing assets at fire sale value.

#### *Goods and Services Tax (GST)*

A177. The statement of accounting policies shall disclose:

- (a) Whether the entity is registered for GST; and
- (b) Whether the performance report is prepared on a GST-inclusive or GST-exclusive basis.

#### *Specific Accounting Policies*

A178. The statement of accounting policies shall disclose the accounting policies for each significant type of transaction or balance. These policies shall be consistent with the requirements of this Standard (including the requirements of paragraph 6).

A179. The policies may be reported at an appropriate level of aggregation, for example, “revenue from the sale of services” as a category of accounting policies.

A180. Where an entity has elected to apply the requirements of a PBE Standard that is part of the Tier 2 PBE Accounting Requirements in place of a requirement of this Standard (see Appendix C), the PBE Standard applied shall be disclosed.

**Changes in Accounting Policies**

A181. A change in the accounting treatment, recording, or measurement of a transaction or other event is regarded as a change in accounting policy. For example, the initial application of a policy to revalue assets (rather than measuring them at cost) is a change in accounting policy.

A182. An entity shall change an accounting policy only if the change:

- (a) Is required by this Standard; or
- (b) Is in accordance with this Standard and results in the statements providing more faithfully representative or more relevant information about the effects of transactions or other events and conditions on the entity's service performance, financial performance, financial position, or cash flows.

**Required Information**

A183. When an entity changes its accounting policy an entity shall disclose:

- (a) The reason for the change, a description of the change in policy, and how and from when this change in policy has been applied; and
- (b) For the current period, for each statement line item affected, the amount as calculated under the previous accounting policy.

A184. Where there have been no changes to accounting policies during the reporting period, that fact shall be reported.

**Accounting for Changes in Accounting Policies**

A185. Changes in accounting policies shall be applied from the beginning of the current reporting period.



## Section 9: Notes to the Performance Report

### Purpose and Value to Users

A186. The notes to the performance report contain information that expands on the information included in other parts of the performance report as well as providing any additional relevant information. This is designed to provide users with a greater understanding of the information reported in the statements of service performance, financial performance, financial position and cash flows.

### Required Information

A187. The following matters shall be included in the notes to the performance report.

A188. [Deleted]

### ***Deferred Revenue: Unused Significant Donations, Grants or Bequests with Expectations over Use***

188.1. Where the entity has received a significant donation, grant or bequest for which revenue recognition has been deferred at the balance date, the entity shall disclose in the notes to the performance report information to help readers understand:

- (a) The purpose and nature of the expectations over future use; and
- (b) When the entity expects to satisfy the remaining expectations over use.

### ***Goods or Services in Kind Provided to the Entity***

A189. An entity shall disclose in the notes to the performance report a description of any significant goods or services in kind provided to the entity during the financial year, such as free professional services. A dollar quantification may be provided but is not required.

### ***Property, Plant and Equipment***

A190. For each class of property, plant and equipment recorded in the statement of financial position, the entity shall disclose in the notes to the performance report:

- (a) A description of the asset class (for example, equipment, furniture);
- (b) The carrying amount of the asset class at the beginning of the financial year;
- (c) The depreciation and/or impairment expense recorded for the asset class for the financial year;
- (d) The amount of any revaluation gain/loss recognised in the revaluation reserve for the financial year (where the entity has elected to measure such items at revalued amounts); and
- (e) The carrying amount of the asset class at the end of the financial year.

A191. The entity shall disclose the source and date of the valuation of assets for any assets recorded at valuation (such as significant donated assets) and any other assets for which the entity has chosen to disclose a current value (see paragraphs A113–A116.4).

**Investments**

A191.1. Where the entity has elected to measure a class of investments at its current market value (see paragraphs A116.7 – A116.9) the entity shall disclose for each class of investment in the notes to the performance report:

- (a) A description of the asset class (for example, shares, bonds);
- (b) Whether the asset class is held at current market value or cost less impairment;
- (c) The carrying amount of the asset class at the beginning of the financial year;
- (d) The amount of any revenue/expense recognised in the statement of financial performance due to changes in the market value of the asset class for the financial year; and
- (e) The carrying amount of the asset class at the end of the financial year.

A191.2. For each class of investment held at current market value the entity shall also disclose the source and date of the valuation (for example, NZX-quoted price at the balance date).

**Significant Donated Assets not Recorded**

A192. Where significant donated assets have not been recorded in the statement of financial position because values are not readily obtainable (see paragraph A112), the entity shall disclose in the notes to the performance report a description of the asset, categorised by class where appropriate.

**Significant Heritage Assets not Recorded**

A193. Where significant heritage assets have not been recorded in the statement of financial position because values are not readily obtainable (see paragraph A110), the entity shall disclose in the notes to the performance report, a description of the asset, categorised by class where appropriate.

**Assets Used as Security for Liabilities**

A194. If an entity has used any of its assets as security for loans borrowed, the entity shall disclose in the notes to the performance report information about:

- (a) The nature and amount of the loan that is secured; and
- (b) The nature and amount of the asset(s) used as security.

**Assets Held on Behalf of Others**

A195. Where an entity is acting on behalf of another entity as its trustee, nominee or agent, the following matters shall be disclosed in the notes to the performance report:

- (a) A description of the assets which it holds in this capacity; and
- (b) The name of the entity on whose behalf the assets are held.

**Changes in Accumulated Funds**

A196. The notes to the performance report shall include an explanation of the movements between the opening and closing balances for each category of Accumulated Funds. An entity shall also disclose the nature and purpose of each restricted and discretionary reserve.

A196.1. An entity shall disclose information that enables users of its financial statements to evaluate the entity's objectives, policies, and processes for managing its reserves .

A196.2. In meeting the requirements of paragraph A196.1 for restricted reserves, an entity shall disclose a description of the purpose of the reserve and the nature of the restriction on the reserve.

A196.3. In meeting the requirements of paragraph A196.1 for discretionary reserves, an entity shall disclose a description of the purpose of the reserve, the entity's plans for applying the reserve towards its stated purposes, and when the entity expects the reserve will be applied.

A196.4. Information which an entity may consider disclosing in meeting the requirements of paragraphs A196.2 and A196.3 includes:

- (a) Whether the entity intends to begin any specific projects to which the reserve will be applied;
- (b) To what extent the reserve represents investments in assets. This can be property, plant and equipment that are used in pursuit of its stated purposes in future periods. It can also include long term investments held to generate revenue returns to be used in pursuit of its stated purposes; or
- (c) Whether the entity is accumulating funds with the intent to make a significant distribution to another entity with similar objectives.

**Commitments**

A197. Commitments are legal obligations to make payments in the future. Although commitments (operating or capital) are not yet recorded as liabilities, reporting them is essential for users of reports to gain a proper understanding of the entity's future viability.

A198. An entity shall report in the notes to the performance report the timing and estimated amount of any significant commitments (both operating and capital). Types of commitments which may need to be reported include:

- (a) Commitments to lease or rent assets;
- (b) Commitments to purchase property, plant and equipment; and
- (c) Commitments to provide loans or grants.

**Contingent Liabilities**

A199. A contingent liability is a possible obligation that arises from past events that is contingent (dependent) on some future event. For example, a court case not yet settled, or a guarantee issued.

A200. For each class of contingent liability at the balance date an entity shall disclose in the notes to the performance report:

- (a) A brief description of the nature of the contingent liability;
- (b) A best estimate of the amount of the contingent liability (where this can be estimated);
- (c) An indication of the uncertainties relating to the amount or timing of any outflow of resources; and
- (d) The possibility of any reimbursement.

A201. For each guarantee or class of guarantee, an entity shall disclose in the notes to the performance report:

- (a) The nature of the guarantee;
- (b) The maximum amount of any guarantees provided to others; and
- (c) The likelihood of the entity being required to make payment under the guarantee.

**Related Party Transactions**

*Explanation*

A202. A related party transaction is a transfer of money or other resource between the reporting entity and a person or other entity that is closely associated with the reporting entity that has the ability to influence the reporting entity. This includes normal business transactions as well as transactions below market price (including the provision of free goods or services).

A203. Related parties comprise:

- (a) People that have significant influence over the entity (such as officeholders, committee members, or others that are involved in the strategic management of the entity – whether employed or volunteer), and close members of their families; and
- (b) Other entities that have significant influence over the entity.

A204. Related party relationships exist throughout the NFP sector. Disclosure of related party relationships and related party transactions and the relationship underlying those transactions is necessary for accountability purposes, and to enable users to better understand the entity's performance report. This is because:

- (a) Related party relationships can influence the way in which an entity operates with other entities;
- (b) Related party relationships might expose an entity to risks, or provide opportunities that would not have existed in the absence of that relationship; and
- (c) Related parties may enter into transactions that unrelated parties would not enter into, or may agree to transactions on terms and conditions that differ from those that would normally be available to unrelated parties.

A205. Examples of transactions with a related party that would meet these criteria and therefore would be disclosed are:

- (a) The sale of a significant resource (such as a building) to the spouse of a member of the governing body of the entity;
- (b) The provision of preferential access to services provided by the entity to the child of the president of the entity;
- (c) The provision of finance (including loans, grants and guarantees), for example, a low interest loan, to a related party; and
- (d) A member of the governing body providing professional services (for example, accounting or legal services) to the entity at no cost.

#### *Requirements*

A206. An entity shall disclose in the notes to the performance report, transactions with a related party that have occurred during the financial year if:

- (a) The transaction is significant to the entity (individually or in aggregate with similar transactions); or
- (b) The transaction (either significant or insignificant) is on terms and conditions that are likely to be different from the terms and conditions of transactions in similar circumstances between parties that are not related.

A207. For each disclosed transaction the following shall be reported:

- (a) A description of the related party relationship;
- (b) A description and amount of any revenue or expense (and the value of free goods or services provided) related to the transaction during the financial year; and
- (c) Any amounts due from or to related parties at balance date.

#### ***Events After the Balance Date***

A208. Where events after balance date occur (see paragraphs A33–A35), and those events have a significant impact on the information included in the performance report, the entity shall report in the notes to the performance report the following:

- (a) The nature of the event; and
- (b) An estimate of its financial effect, or a statement that such an estimate cannot be made; and
- (c) The effect, if any, on the entity's ability to continue operating.

A209. An entity is not required to provide comparative information for events occurring after the balance date. That is, an entity is not required to repeat disclosure of events occurring after the previous balance date.

**Ability to Continue Operating**

A210. Where the entity plans to stop operating within 12 months from balance date (see paragraph A176), or it is likely that the entity will be unable to continue operating, the entity shall include in the notes to the performance report the following:

- (a) A statement that the entity intends to stop operating or that it is unlikely the entity will be able to continue operating;
- (b) The reason why the entity intends to stop operating or why it may not be able to continue operating; and
- (c) The estimated effect of the entity's circumstances on the amounts of the entity's assets and liabilities.

A211. The impact of such a change will depend upon the particular circumstances of the entity. For example, the impact on the recorded amounts of assets will depend upon whether operations are to be transferred to another entity, sold, or liquidated. Judgement is required in determining whether a change in the carrying amount of assets and liabilities is required. It is also necessary to consider whether the change in circumstances leads to additional liabilities or triggers clauses in debt contracts which will lead to the reclassification of those debts as current liabilities.

**Correction of Errors**

A212. When an entity corrects a significant prior period error (see paragraph A28), it shall report in the notes to the performance report:

- (a) A description of the error and how it was corrected; and
- (b) The line items and amounts that have been corrected.

**Additional Information**

A213. The notes to the performance report shall include any additional information that the entity considers necessary for users to understand the overall financial performance and position of the entity.

**Optional Information**

A214. An entity may include in the notes to the performance report:

- (a) Breakdowns of the minimum categories, or the disaggregated categories or additional categories reported in the statement of service performance, statement of financial performance, statement of financial position or statement of cash flows;
- (b) Additional information about donations, fundraising and other similar revenue including a list of donors; and
- (c) Other information that the entity considers will be helpful to users in understanding the performance of the entity.

## Section 10: Illustrative Examples

The following are examples of the accounting treatment required in the performance report.

### 1. Revenue Earned

#### **Scenario 1**

A charity that provides health services (the reporting entity) has a government contract where it invoices the government after the services have been provided.

*Treatment:* The reporting entity records revenue in the statement of financial performance (as revenue from providing goods or services) when the health services have been delivered. In practice this will normally be when the invoice is issued to the government (if issued on a monthly basis or something similar). Any amounts invoiced but not yet received at balance date are recorded as a debtor in the statement of financial position.

#### **Scenario 2**

A charity that provides health services (the reporting entity) has a government contract where the government bulk funds the charity at the beginning of each quarter in advance of the services having been delivered.

*Treatment:* The reporting entity records:

- (a) The bulk funding received in advance as a liability in the statement of financial position (as part of creditors and accrued expenses or separately as a disaggregated category “revenue in advance”); and
- (b) Revenue in the statement of financial performance (revenue from providing goods or services) as the health services are delivered; and reduces the liability for the funding received in advance by the same amount at the same time.

### 2. Donations, Grants and Bequests with and Without Expectations Over Use

#### **Scenario 1 – Donation from a private individual with no documented expectation over use**

A charity that delivers social services (the reporting entity) receives a significant donation from a private individual to support its activities. The reporting entity expects to use the donation to fund a particular project; however, the donor has not specifically communicated any expectations over use of the donation to the reporting entity.

*Treatment:* As the donor did not communicate any expectations over the use of the grant to the reporting entity, the reporting entity records the donation as revenue in the statement of financial performance (as revenue from donations, koha, bequests, and other fundraising activities) upon receipt of the donation.

*Optional Information:* The reporting entity may include information about the donor in any list of donors and their contributions included in the notes to the performance report (see paragraph A61).

#### **Scenario 2 – Grant with a time-specified expectation**

A charity that delivers social services (the reporting entity) receives a grant to support its general operating activities at the beginning of its financial year. The grantor specifies in writing that the charity must use the grant over the next two years.

*Treatment:* There is a documented expectation over the use of the grant from the grantor, which is time specified (i.e. funds to be used over a two-year period). Therefore, the reporting entity:

- (a) Records the grant as deferred revenue upon receipt of the funds;
- (b) Records the grant as revenue in the statement of financial performance (as grant revenue) on a straight-line basis (i.e. records half the grant as grant revenue at the end of the financial year in which the grant was received);
- (c) Records a corresponding reduction in the deferred revenue balance; and

- (d) Provides information in the notes to the performance report outlining the total amount of the grant, the amount of the grant unused, the fact that the grant is to be used over a period of two years, and when the reporting entity expects to fulfil the grantor's expectations in full (see paragraph A188.1).

*Optional Information:* The reporting entity may include information about the grant provider in any list of grant providers and their contributions included in the notes to the performance report (see paragraph A61).

Note: for a time-specified expectation, revenue is recognised on a straight-line basis over the specified period, regardless of how much of the funding has actually been spent as at balance date.

### **Scenario 3 – Bequest to be used to fund the construction of an asset**

A charity receives a bequest for the purposes of building new premises. This expectation has been documented and agreed between the charity and a representative of the donor's deceased estate.

*Treatment:* There is a documented expectation over the use of the bequest, which relates to the construction of an asset. Therefore, the reporting entity:

- (a) Records the bequest as deferred revenue upon receipt of the funds;
- (b) Records the bequest in the statement of financial performance (as revenue from capital grants and donations) on a stage of completion basis (i.e. recognise a percentage of the bequest as revenue, based on the percentage of total expected expenditure incurred to date), with a corresponding reduction in the deferred revenue balance; and
- (c) Provides information in the notes to the performance report outlining the total amount of the bequest, the amount of the bequest unused, the fact that the bequest is to be used to fund the construction of the new premises, and when the reporting entity expects to fulfil the resource provider's expectations in full (see paragraph A188.1).

## **3. Donated Assets**

The family of a deceased person (who is not a related person) donates a house, some artefacts and other miscellaneous items from the estate to a charity (the reporting entity). The house has a local council rateable valuation, is considered to be significant, and will have a useful life of 12 months or more. The artefacts are considered significant and will have an indefinite useful life of 12 months or more. However, the value of the artifacts is not readily obtainable. The other miscellaneous items are considered insignificant.

*Treatment:* When the donated assets are received, the reporting entity:

- (a) Records:
  - (i) The house as an asset in the statement of financial position (as property, plant and equipment) at the government valuation (see paragraph A111);
  - (ii) Revenue in the statement of financial performance (as donations, fundraising and other similar revenue) at the same amount as the house was recorded at in the statement of financial position; and
  - (iii) The basis and date of the valuation, and the information required for property, plant and equipment, in the notes to the performance report (see paragraph A190);
- (b) Does not record the artefacts (because their value is not readily obtainable) but discloses in the notes to the performance report details of the artefacts received (see paragraph A192); and
- (c) Does not record the other miscellaneous items (because their value is insignificant).

*Optional Information:* The reporting entity may include in the notes to the performance report a list of donations received including these donated assets.

**4. Donated Goods or Services**

A charity (the reporting entity) has its performance report prepared free of charge by a chartered accountant who is not associated with the charity. The value of the free services is significant to the charity.

*Treatment:* The reporting entity does not record the donated services (see paragraph A68). However, the donated service is disclosed in the notes to the performance report (see paragraph A189).

**5. Pledges**

A local radio station conducts a fundraising appeal for a charity (the reporting entity). Listeners send in pledges, promising to send donations of specified amounts of money. At the conclusion of the appeal, a significant amount has been pledged. The pledged donations are not binding on those making the pledge.

*Treatment:* The reporting entity does not record any amount in respect of the pledges until it receives the funds pledged.

*Optional Information:* The reporting entity may wish to record in the notes to the performance report the result of the fundraising appeal.

**6. Volunteer Services**

The reporting entity is a charity shop run by volunteers.

*Treatment:* The entity information section reports that the entity is reliant on volunteers' donation of time, and the donation of goods for sale, for the operation of the charity shop (see paragraph A37(f)).

*Optional Information:* In its statement of service performance the entity may provide a quantification of the contributions from volunteers in terms of numbers of volunteers, number of volunteer hours or full-time staff equivalents involved in running the shop (see paragraph A43(a)(iv)).

**7. Loans and Revenue from Loan Forgiveness****Scenario 1**

A church (the reporting entity) is lent money by a parishioner (who is not a related party) to fund the repair of the church organ. Repayments on the loan are required to begin immediately.

*Treatment:* When the loan is received it is recorded as a liability (a loan) in the statement of financial position. Repayments are recorded as a reduction in the loan in the statement of financial position (so that the amount at balance date reflects the loan principal outstanding).

**Scenario 2**

A church (the reporting entity) is lent money by a parishioner (who is not a related party) to fund the repair of the church organ. Repayments on the loan are not required to begin for five years. After four years, the parishioner decides not to require repayment of the loan.

*Treatment:* When the loan is received it is recorded as a liability (a loan) in the statement of financial position. When the loan is forgiven, the amount of the loan is recorded as revenue in the statement of financial performance (as donations, fundraising and other similar revenue), and the liability (loan) is removed from the statement of financial position.

*Optional Information:* The reporting entity may wish to record in the notes to the performance report the donation and the reason that it no longer has the loan recorded in the statement of financial position.



**8. Grants and Donations Expense****Scenario 1**

A philanthropic trust (the reporting entity) makes grants to worthy organisations. The Trust's policy is that all grants are discretionary and it does not advise organisations receiving a grant in advance of paying the grant.

*Treatment:* The reporting entity records the grants as an expense (as grants and donations made) in the statement of financial performance when the grants are paid.

**Scenario 2**

A philanthropic trust (the reporting entity) makes grants to worthy organisations. After each Trust meeting the Trust advises organisations that have been approved for a grant of that fact in writing. The grants are typically paid out two months after the written notification.

*Treatment:* The reporting entity records the grants as an expense (as grants and donations made) in the statement of financial performance when it notifies the organisations in writing. It also records a liability (as a creditor) in the statement of financial position.

**9. Liabilities and Contingent Liabilities**

At its annual charity gala, a charity (the reporting entity) made use of material subject to copyright. Legal proceedings are started seeking damages from the reporting entity for breach of copyright, but the reporting entity disputes liability. Up to the date of finalising the performance report for the year, the reporting entity's lawyers advise that it is probable that the entity will not be found liable. However, when the reporting entity prepares its performance report for the following year, its lawyers advise that, owing to developments in the case, it is probable that the entity will be found liable.

*Treatment:* In the first year, the reporting entity does not record a liability in the statement of financial position because the legal advice is that the entity is not likely to be found liable. The matter is reported as a contingent liability in the notes to the performance report.

In the second year, the reporting entity records a liability in the statement of financial position (as a creditor provision) if the amount of damages can be reliably estimated; and records an equivalent amount as an expense in the statement of financial performance. If the amount of damages cannot be reliably estimated, no liability or expense is recorded and the facts are reported in the notes to the performance report.

**10. Related Parties****Scenario 1**

The reporting entity has total operating payments of \$200,000. A few of these payments (\$50,000) are made to the spouse of the chairperson for office administration duties of the entity. The payments are made on normal terms and conditions.

**Scenario 2**

The reporting entity has total operating payments of \$200,000. A few of these payments (\$500) are made to the spouse of the chairperson for relieving the office administrator. The payments are made at the same hourly rate as the office administrator receives.

*Treatment:* In both of the scenarios the spouse of the chairperson is a related party of the reporting entity (see paragraph A203).

In scenario 1 the transactions with the related party are significant to the entity (see paragraph A206(a)) and therefore the entity reports in the notes to the performance report the information set out in paragraph A207(a)–(c).

In scenario 2 the transactions with the related party are not significant to the entity and therefore the entity is not required to report those transactions in the notes to the performance report (but it may do so if it wishes).

**Section 11: Glossary**

*This Glossary contains all terms defined in this Standard.*

<b>Accounting policies</b>	The specific policies and practices used by the entity when preparing the performance report.
<b>Accumulated funds</b>	Represents the net assets available to the entity to fulfil its objectives in the future. It also represents the difference between the assets and liabilities of the entity. In the for-profit sector the equivalent term is equity.
<b>Assets</b>	Resources controlled by the entity as a result of past events (which would usually be transactions), from which future economic benefits are expected to flow to the entity (such as investments producing interest revenue).
<b>Associate</b>	An entity over which the investor has significant influence.
<b>Bad debt</b>	Money owing to the entity (accounts receivable) that is deemed uncollectible and written off as an expense. This may be due to the length of time it has been owing, or information known about the customer's ability to pay (for example, the customer has gone into liquidation).
<b>Balance date</b>	The date to which the performance report is prepared. It is usually an end of month date, for example, 31 March 20XX.
<b>Carrying amount</b>	The cost of the asset less accumulated depreciation and accumulated impairment losses (if any).
<b>Cash</b>	Cash on hand and bank account balances (e.g., cheque and savings accounts)
<b>Commitments</b>	Contracts or similar arrangements entered into by the entity to pay money in the future.
<b>Consolidated performance report</b>	The performance report of an economic entity <sup>10</sup> presented as that of a single entity.
<b>Contingent liability</b>	A possible obligation to pay money that will be confirmed by the occurrence or non-occurrence of an uncertain future event or an obligation that has arisen but is not recorded because: (i) it is not probable that the entity will have to settle the obligation; or (ii) the amount of the obligation cannot be estimated reliably (that is, the entity is too uncertain of the amount of the obligation).
<b>Control</b>	An entity controls another entity when the entity is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature or amount of those benefits through its power over the other entity.
<b>Controlled entity</b>	An entity that is controlled by another entity.
<b>Controlling entity</b>	An entity that controls one or more entities.
<b>Deficit</b>	The amount in the statement of financial performance when expenses exceed revenue for the year. In the for-profit sector the equivalent term is loss.
<b>Depreciation</b>	The allocation of the cost of the asset over its useful life using a structured method such as straight line or diminishing value.
<b>Economic entity</b>	A controlling entity and its controlled entities.

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<sup>10</sup> Note the term group is sometimes used to refer to the economic entity.

<b>Entity</b>	An entity is an organisation which may take any of a number of forms, including but not limited to, registered charity, company, incorporated association, unincorporated association or trust. Dependent on organisational structure, this may be a legal entity, a unit within a wider organisation, or it may be comprised of one or more units.
<b>Expenses</b>	All outflows from the entity during the year other than capital outflows. Capital outflows comprise distributions to owners (in their capacity as owners), outflows to settle liabilities that were recorded in a previous year, and outflows to purchase assets. Expenses include cash paid out during the year, and any liability to pay out cash in the future related to an event (usually a transaction) in the current year or a prior year. These outflows may be from normal operating activities such as the costs of fundraising, or from transactions such as grants made by the entity. Expenses also include reductions in property, plant and equipment called depreciation expense and impairment expense.
<b>Fair value</b>	The amount for an arm's length transaction if it takes place between two willing parties in the market. Fair value applies to both assets and liabilities.
<b>Financial year</b>	A twelve-month period ending on the entity's balance date.
<b>Impairment</b>	When an asset is worth less in the market than the carrying amount in the statement of financial position, the difference is an impairment (and is recorded as an expense). This may occur if the asset becomes obsolete due to technological change or the asset is damaged. Impairment tests apply to both tangible and intangible assets.
<b>Intangible assets</b>	Assets without a physical presence (for example, trademarks, patents).
<b>Inventory</b>	Also referred to as stock, these are current assets held for sale in the ordinary course of business. For example, the goods for sale in a charity shop.
<b>Joint arrangement</b>	An arrangement of which two or more parties have joint control.
<b>Joint control</b>	The agreed sharing of control of an arrangement by way of a binding arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.
<b>Joint venture</b>	A joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.
<b>Liabilities</b>	Present obligations arising from past events, the settlement of which is expected to result in an outflow of resources from the entity. An example is the purchase of supplies prior to balance date, with the payment due in the next financial year.
<b>Measurement</b>	Quantification of activities in terms of money, being New Zealand dollars.
<b>Not-for-profit public benefit entity (NFP PBE)</b>	A public benefit entity that is not a public sector public benefit entity.
<b>Notes to the performance report</b>	Notes that provide further information on items in the various financial statements, either by a further breakdown of figures or a narrative description.
<b>Performance report</b>	A set of statements which collectively tell the story of the entity over the financial year. This includes the entity information, statement of service performance, statement of financial performance, statement of financial position, statement of cash flows, statement of accounting policies, and

	notes to the performance report prepared in accordance with this Standard.
<b>Public accountability</b>	<p>While NFP PBEs are generally considered to be publicly accountable, “public accountability” has a specific meaning in the accounting standards issued by the XRB.</p> <p>Entities are considered to have public accountability for financial reporting purposes when they have issued debt or equity instruments through a public offering or their main activity is holding cash or other assets on behalf of others (e.g. a superannuation scheme).</p> <p>The full definition of “Public Accountability” is included in XRB A1.</p>
<b>Public benefit entity</b>	Reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders.
<b>Recording</b>	Including <u>a</u> revenue, expense, asset or liability <u>item</u> in the statements of the performance report (also referred to as recognition).
<b>Recognition event</b>	<p>An event that brings about the legal obligation for the entity to:</p> <ul style="list-style-type: none"> <li>(a) Settle a transaction with another party at a future date (payables), or by the payment of cash; or</li> <li>(b) Have a legal obligation settled upon the entity by another party (receivables), or by the receipt of cash.</li> </ul> <p>This is what distinguishes accrual accounting from cash accounting (for which the only recognition event is the receipt or payment of cash).</p>
<b>Related parties</b>	People or entities that have significant influence over the reporting entity, such as officeholders, committee members, or others that are involved in the strategic management of the entity (whether employed or volunteer) and close members of their families.
<b>Reporting entity</b>	An entity preparing a performance report in accordance with this Standard. In the New Zealand reporting environment, it is an organisation that is required by law, or elects to apply, standards issued by the External Reporting Board (XRB) or the New Zealand Accounting Standards Board of the XRB. For the purposes of applying this Standard the entity is a NFP entity.
<b>Revenue</b>	All inflows into the entity during the year other than capital inflows. Revenue includes the cash received during the year, and the right to receive a payment in the future related to an event (usually a transaction) in the current year. These inflows may be from normal operating activities such as the sale of a good or service. Capital inflows comprise contributions from owners (in their capacity as owners), inflows to settle a receivable that was recorded in the previous year, inflows from the sale of assets, and inflows from borrowings.
<b>Significant</b>	An item is significant if recording and/or disclosure of the particular item, whether financial or non-financial, could influence a user’s understanding of the entity’s overall performance. For the purposes of this Standard it has the same meaning as material.
<b>Significant influence</b>	The power to participate in the financial and operating policy decisions of another entity but is not control or joint control of those policies.
<b>Statement of cash flows</b>	A statement that shows the movements between the cash balances at the beginning and the end of the year. It is divided into two categories: operating, and investing and financing.

<b>Statement of financial performance</b>	A statement that shows an entity’s revenue and expenses, to establish its surplus or deficit for the financial year. This statement is sometimes called the income statement or operating statement.
<b>Statement of financial position</b>	A statement that reports a picture of the entity’s position by listing what it owns and what it owes at the balance date. This statement is sometimes called the balance sheet.
<b>Statement of service performance</b>	A statement that provides information to help users understand what the entity did during the financial year to achieve its objectives. It is particularly useful in the not-for-profit sector when the focus is on achieving objectives, rather than making a profit. The information in this statement is predominantly non-financial, but still involves measurement.
<b>Surplus</b>	The amount in the statement of financial performance when revenue exceeds expenses for the year. In the for-profit sector the equivalent term is profit.
<b>Total expenses</b>	<p>For the purpose of applying the Tier 3 size criteria, total expenses means total expenses (including losses and grant expenses) recognised in accordance with Tier 3 PBE Accounting Requirements in the Statement of Financial Performance.</p> <p>Where revenue and expense are offset as required or permitted, any net expense is included in total expenses.</p> <p>Where the entity reporting is a group, total expenses is that of the group comprising the controlling entity and all its controlled entities.</p>

## Appendix B: Transitional Arrangements

*This Appendix contains the requirements for entities to transition to Reporting Requirements for Tier 3 Not-for-profit Entities. It is an integral part of the Standard.*

### Objective

- B1. This part of the Standard<sup>11</sup> is designed to assist an entity in preparing its first performance report under this Standard. This Standard recognises that entities come from divergent reporting backgrounds and prescribes different transitional rules to meet different circumstances.

### Transitional Groups

- B2. There are likely to be four types of entities applying this standard:

Group 1: New entities – those that have started up in the current financial year.

Group 2: Entities previously applying Tier 4 PBE Accounting Requirements – those who have complied with Tier 4 PBE Accounting Requirements in the previous financial year.

Group 3: Entities previously applying Tier 2 PBE Accounting Requirements – those who have complied with Tier 2 PBE Accounting Requirements in the previous financial year.

Group 4: Other Entities – entities that have been operating prior to the current financial year, and in the previous financial year followed other accounting standards (for example, NZ IFRS PBE or Old GAAP), or have not followed any accounting standard issued by the External Reporting Board (XRB) or the New Zealand Accounting Standards Board of the XRB.

### General Provisions

- B3. These general provisions apply to all entities in Groups 1 to 4 applying this Standard unless there is an override in the Special Provisions in paragraphs B7 to B10.
- B4. An entity that is reporting in accordance with this Standard for the first time, shall apply this Standard from the beginning of the earliest comparative period presented. This is the financial year prior to that for which the performance report is currently being prepared, for example, if the performance report is being prepared in accordance with these general provisions for the year ended 31 March 2016, the beginning of the earliest comparative period would be 1 April 2014.
- B5. All assets and liabilities shall be recorded at the beginning of the earliest comparative period presented.
- (a) For payables and receivables, amounts shall be recorded at the amount owing or owed at the beginning of the earliest comparative period.
  - (b) For property, plant and equipment, an entity shall record significant items at their readily obtainable current amounts (such as rateable value or government valuation). Where amounts are not readily obtainable the entity is not required to record the assets but shall disclose this fact in the notes to the performance report. An entity is not required to record insignificant items of property, plant and equipment.
  - (c) For other assets and liabilities an entity shall make its best estimate of the value at the beginning of the earliest comparative period presented and record the assets and liabilities at that amount. In this case accumulated funds is the number needed to make the statement of financial position balance on transition.
- B6. Separate disclosure of significant restatements is encouraged, but is not required.

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<sup>11</sup> This Appendix is part of the Standard and so the term “Standard” is used throughout. “Standard” refers to the Reporting Requirements for Tier 3 Not-for-profit Entities abbreviated as Tier 3 (NFP) Standard.

**Special Provisions**

***Group 1: New Entities***

- B7. No comparative figures are required for this Group. This overrides any requirement elsewhere in this Standard for comparatives to be reported. New entities shall disclose their date of commencement in the notes to the performance report.

***Group 2: Entities Previously Applying Tier 4 Accounting Requirements***

- B8. Entities in this Group shall follow one of the following two options:
- (a) Follow this Standard from the start of the current period. In this case comparative information is not required, and this overrides any requirement elsewhere in this Standard for comparatives to be reported. However, the entity shall attach its previous financial statements and a list of its previous accounting policies; or
  - (b) Apply the general provisions of this Standard.

***Group 3: Entities Previously Applying Tier 2 Accounting Requirements***

- B9. Entities in this Group shall follow one of the following two options:
- (a) Provide comparative data based on the applicable information reported in their financial statements for the previous year prepared in accordance with Tier 2 PBE Accounting Requirements; or
  - (b) Apply the general provisions of this Standard.

***Group 4: Other Entities***

- B10. Entities in this Group shall follow one of the following two options:
- (a) Follow this Standard from the start of the current period. In this case comparative information is not required, and this overrides any requirement elsewhere in this Standard for comparatives to be reported. However, the entity shall attach its previous financial statements and a list of its previous accounting policies; or
  - (b) Apply the general provisions of this Standard.

## Appendix C: Application of PBE Standards

*This Appendix contains the requirements for entities when applying a PBE Standard and is an integral part of the Standard.*

### Interests in Other Entities

- C1. To determine whether an entity has an interest in a controlled entity, an associate or a joint arrangement the entity must refer to the guidance within the following Tier 2 PBE Standards:
  - (a) PBE IPSAS 35 *Consolidated Financial Statements*
  - (b) PBE IPSAS 36 *Investments in Associates and Joint Ventures*
  - (c) PBE IPSAS 37 *Joint Arrangements*
- C2. If an entity controls another entity, it shall prepare a consolidated performance report which combines the assets, liabilities, net assets/equity, revenue and expenses of the controlling entity with those of the controlled entity in accordance with the requirements in PBE IPSAS 35 and PBE IPSAS 38 *Disclosure of Interests in Other Entities*. An entity that controls another entity but which is not required to prepare a consolidated performance report because it qualifies for the exemption in paragraph 5 of PBE IPSAS 35 not to present consolidated financial statements shall prepare a performance report in accordance with PBE IPSAS 34 *Separate Financial Statements*.
- C3. If an entity has an interest in an associate or a joint venture it shall prepare a performance report in which it accounts for that interest in accordance with the requirements in PBE IPSAS 36 and PBE IPSAS 38. An entity that qualifies for the exemption in paragraph 23 of PBE IPSAS 36 not to apply the equity method to its investment in an associate or a joint venture shall prepare a performance report in accordance with PBE IPSAS 34.
- C4. If an entity has an interest in a joint arrangement, it shall prepare a performance report in which it accounts for that interest in accordance with the requirements in PBE IPSAS 37 and PBE IPSAS 38.
- C5. When applying the requirements in PBE IPSAS 34, PBE IPSAS 35, PBE IPSAS 36 or PBE IPSAS 38 an entity is not required to comply with the disclosure requirements in those standards denoted with an asterisk (\*). Where an entity elects to apply a disclosure concession, it shall comply with any RDR paragraphs associated with that concession.

### Other Applications of PBE Standards

- C6. An entity that is eligible to apply this Standard, and elects to do so, may elect to apply the requirements of a PBE Standard that is part of the Tier 2 PBE Standards to a specific type of transaction, as long as it applies that option to all transactions of that type. For example, an entity may decide to opt up to PBE IPSAS 27 *Agriculture* so that it can measure its biological assets and agricultural produce at fair value less costs to sell, or an entity may decide to opt up to PBE IPSAS 25 *Employee Benefits* to account for long-term employee benefits.
- C7. If, for a specific type of transaction, an entity elects to apply the requirements of a Tier 2 PBE Standard instead of applying the requirements in this Standard, the entity:
  - (a) Shall disclose this in the statement of accounting policies; and
  - (b) Cannot choose to return to applying this Standard for that type of transaction unless the entity complies with the requirements of this Standard for changes in accounting policies (see paragraphs A181– A182).
- C8. If, for a specific type of transaction, an entity elects to apply the requirements of a Tier 2 PBE Standard instead of applying the requirements in this Standard, and the PBE Standard requires that the effect of that transaction shall be recognised in other comprehensive revenue and expense, the entity shall instead:
  - (a) Recognise the effect of that transaction directly in accumulated funds; and
  - (b) Present the cumulative effect of similar transactions as a separate reserve within Accumulated Funds.





## **Basis for Conclusions**

BC1. This Basis for Conclusions summarises the NZASB's considerations in developing the PBE Simple Format Reporting – Accrual (Not-For-Profit) Standard (PBE SFR-A (NFP)).

### **Background**

BC2. The Accounting Standards Framework includes four reporting tiers for not-for-profit entities. PBE SFR-A (NFP) contains requirements for the third tier and may be applied by entities that do not have “public accountability” (as defined in standard XRB A1 (FP Entities + PS PBEs + NFPs Update)) and that have annual expenses less than, or equal, to \$2 million.

### **Objective**

BC3. PBE SFR-A (NFP) is intended to improve the quality and consistency of financial reporting by entities eligible to apply the Standard.

BC4. PBE SFR-A (NFP) is intended to provide a simplified version of the Tier 1 and Tier 2 PBE Accounting Standards, rather than a standard based on a different conceptual framework. As a result, the NZASB approached the development of the Standard with a view that, in principle, the same recognition and measurement requirements should apply to Tier 3 NFP financial reporting as are applied by entities applying the Tier 1 and Tier 2 PBE Accounting Standards. The NZASB also considered the extent to which the cost of applying the recognition and measurement requirements in the PBE Accounting Standards outweighed the benefits to users of the resulting financial statements.

### **Approach**

BC5. In preparing the Standard, the NZASB was cognisant of the fact that some Tier 3 not-for-profit preparers, as well as users of their performance report, may have limited access to professional accounting expertise. The NZASB was of the view that the Standard should be able to be applied by persons who are managing the finances of an entity that is eligible to apply PBE SFR-A (NFP).

BC6. The NZASB decided that PBE SFR-A (NFP) should be a single, short, and relatively simple standard written in less technical language than is normally found in accounting standards. As a result, the Standard:

- (a) Addresses only those transactions that are commonly undertaken by entities eligible to apply PBE SFR-A (NFP);
- (b) Contains simplified measurement of transactions where, taking the not-for-profit sector as a whole, the costs of applying the requirements of Tier 1 and Tier 2 standards are likely to outweigh the benefits;
- (c) Excludes the options contained in Tier 1 and Tier 2 standards such as the option to measure property, plant and equipment using the revaluation model; and
- (d) Contains simplified presentation and disclosure requirements.

### **Omitted Transactions**

BC7. The NZASB relied heavily on research funded by the then Charities Commission to assist it in identifying transactions which were undertaken very infrequently by charities and therefore did not need to be addressed in this Standard. These transactions include:

- (a) Financial instruments other than payables, receivables and term deposits; and
- (b) Complex transactions such as service concession arrangements and insurance contracts.

### **Simplifications**

BC8. The major simplifications in this Standard compared to the Tier 1 and Tier 2 PBE Accounting Standards are as follows:

- (a) *Whether grants or donations are recorded:* Goods or services (and other non-cash assets) received in kind are not required to be recorded;

- (b) *Timing of recognition:* Bequests of cash or significant assets are recorded on receipt rather than when the definition of an asset is met (which might be earlier than receipt); and
- (c) *Treatment of donation/grant revenue:* Donations and grants (and other fundraising revenue) are recorded as revenue when received unless there is a “use or return” condition attached to the revenue. In this Standard the key element that drives recognition of a liability relating to the donation/grant received is the “use or return” condition.

BC9. The NZASB decided that the simplification in BC8(a) should not apply to significant donated assets, such as property. Any such donated assets are required to be recognised at a readily available current value (rather than requiring measurement at fair value as defined in the Tier 1 and Tier 2 PBE Accounting Standards). This is to ensure that the statement of financial position includes all significant assets regardless of whether they are purchased or donated.

BC10. The simplification set out in BC8(a) has the consequence that information about donated goods, services and assets (other than significant donated assets), including services provided by volunteers, will not be recorded in the performance report. To compensate for this, PBE SFR-A (NFP) requires disclosure of significant donations in kind in the notes to the performance report.

BC11. In relation to the simplification set out in BC8(c) the NZASB chose not to fully apply to grants and donations the principles in PBE IPSAS 23 *Revenue from Non-Exchange Transactions*. The NZASB considered the requirements of PBE IPSAS 23 to be too costly and complex for entities likely to apply PBE SFR-A (NFP) without a corresponding increase in the usefulness of the information that would be provided to users. The NZASB decided to simplify the principles to require a “use or return” condition before a liability is recorded.

BC12. The NZASB made a number of other simplifications in order to reduce the amount of professional judgement required and to make the Standard simpler to apply. Those simplifications include the following:

- (a) Financial instruments are measured at amounts receivable or payable, with interest revenue or expense recognised in accordance with the terms of the contract, rather than by applying the effective interest method;
- (b) Any foreign currency transactions are to be translated using the rate at the transaction date or at the balance sheet date for monetary assets and liabilities;
- (c) Tax expense (where relevant) is based on income tax payable without any allowance for deferred tax assets or deferred tax liabilities;
- (d) Basing the statement of cash flows on ‘cash’ rather than cash equivalents; and
- (e) Allowing the direct method of preparing the statement of cash flows, on the assumption that most entities applying this Standard will use cash books as their primary source of information.

### ***Option to Apply the Requirements in Tier 2 PBE Accounting Standards***

BC13. The NZASB is aware that some entities may prefer not to apply certain of these simplifications or may wish to use an option that is available in Tier 1 and Tier 2 PBE Accounting Standards. Accordingly, the NZASB included an option in this Standard that permits entities to elect to use the recognition and measurement requirements of a Tier 2 PBE Accounting Standard for a specific type of transaction as long as the entity applies that same requirement to all transactions of that type. Entities are required to disclose the use of this option, where applied.

### **Financial Information**

BC14. This Standard establishes minimum aggregated categories for the reporting of financial information. It also allows an entity to add additional categories applicable to that entity and to describe all categories using terminology appropriate to that entity. In doing so, the NZASB was seeking to achieve a balance between comparability and understandability on the one hand, and flexibility for entities to reflect their own circumstances on the other.

**Non-Financial Information**

BC15. To enhance financial reporting with non-financial information that explains the activities of the entity, this Standard requires:

- (a) Disclosure of information about the entity's structure and objectives, together with disclosure of the entity's reliance on donations, including services donated by volunteers; and
- (b) The preparation of a statement of service performance.

BC16. The NZASB is of the view that the reporting of this non-financial information is necessary for users to gain a full understanding of the entity's performance.

**Group Accounting**

BC17. At the stage that PBE SFR-A (NFP) was issued in November 2013, the NZASB indicated its intention to issue a separate exposure draft on accounting for groups (the entity together with any entities that it controls).

BC17.1 The NZASB subsequently considered this issue and issued ED NZASB 2014-3 *Interests in Other Entities* (Amendments to PBE SFR-A (NFP)) in April 2014 (ED NZASB 2014-3). The NZASB noted that PBE SFR-A (NFP) applied both to single entities and groups and required that an entity's performance report incorporate all the activities of the entity. However, it was silent as to how an entity applying the standard should account for significant interests in other entities, such as interests in controlled entities, associates and joint ventures.

BC17.2 The NZASB considered how to clarify this issue for Tier 3 public sector entities. The NZASB considered and rejected a disclosure only approach on the grounds that this would not result in an entity reporting the reality of its structures and arrangements. The NZASB was of the view that if a Tier 3 not-for-profit entity has interests in other entities, those interests need to be appropriately accounted for in the performance report. The NZASB considered that the Tier 2 PBE Accounting Standards contain appropriate accounting requirements for accounting for significant interests in other entities and that those requirements should also apply to any Tier 3 not-for-profit entity with such interests in other entities.

BC17.3 In considering how best to incorporate these requirements in PBE SFR-A (NFP) the NZASB noted that:

- (a) Some Tier 3 not-for-profit entities would be expected to have interests in controlled entities, associates or joint ventures;
- (b) Some Tier 3 not-for-profit entities with interests in controlled entities, associates or joint ventures would already be accounting for those interests in accordance with similar requirements to the Tier 2 PBE Accounting Standards; and
- (c) Development of simplified group accounting requirements would be difficult to draft and would significantly increase the size of the Tier 3 not-for-profit standard, thereby detracting from the usefulness of the standard for most not-for-profit entities.

BC17.4 The NZASB agreed to require Tier 3 not-for-profit entities to account for significant interests in other entities in accordance with the Tier 2 PBE Accounting Standards, and to give effect to this requirement by referring to the Tier 2 PBE Accounting Standards in the Tier 3 not-for-profit standard. When applying the requirements of the Tier 2 PBE Accounting Standards an entity may use any RDR concessions available to Tier 2 entities in those standards.

**Related Parties**

BC18. The definition of related party in existing accounting practice includes both people (and close members of their families) and other entities that have significant influence over the entity. The NZASB considered whether to simplify that definition of related party for this Tier. After considering the importance of related party disclosures for accountability purposes, and the risks and opportunities inherent in these relationships, the NZASB decided to retain in the definition of related party both related people (and close members of their families) and other entities that have significant influence over the entity.

BC19. However, disclosure of related party transactions is only required if the transaction is significant to the entity (individually or in aggregate with similar transactions), or the transaction is on terms and conditions that are likely to be different from the terms and conditions of transactions in similar circumstances between parties that are not related.

### Transition

BC20. The NZASB was aware that a wide range of pre-existing accounting policies were applied by entities that are now required by law to follow standards issued by the XRB. The NZASB was also concerned that some of those entities might have difficulty in restating their comparative information and measuring some existing purchased assets as required by this Standard. Rather than delay the application of the Standard, PBE SFR-A (NFP) permits entities to:

- (a) Apply PBE SFR-A (NFP) in the first year without restating the comparative information. Entities taking this option are required to attach their prior period financial statements (including an explanation of the accounting policies applied) rather than having to restate the comparative financial information; and
- (b) Record only pre-existing assets that are significant and that have values that are readily obtainable. Assets that are not significant or for which values are not readily obtainable need only be disclosed in the notes to the performance report. The NZASB concluded that disclosing reliable information about purchased pre-existing assets was sufficiently useful to users of financial statements rather than imposing the costs on entities to attempt to identify, recognise and measure the assets in accordance with the PBE SFR-A (NFP).

### **Post-implementation review**

BC21. The NZASB completed a post-implementation review of the Tier 3 (NFP) Standard in 2021 to assess whether the Standard was working as intended and achieving its original objectives. Over 100 submissions were received in response to the post-implementation review, which have been considered as the basis for developing proposed amendments to the Standard.

BC22. Many respondents to the post-implementation review considered that, in general, the Standard was working well. However, there were some key issues raised in the feedback which highlighted areas where the Standard could be improved. In response, the NZASB issued ED NZASB 2022-4 Amendments to Tier 3 (NFP) Standard in [Month, Year] which proposed amendments to the following specific areas of the Standard.

### **Service Performance Reporting (Section 4)**

BC23. The NZASB noted that the statement of service performance requirements in the Tier 3 (NFP) Standard were developed before PBE FRS 48 *Service Performance Reporting* (PBE FRS 48) was developed and issued. The NZASB decided to re-express the requirements for Tier 3 not-for-profit entities so that they were more in line with the requirements in PBE FRS 48. Doing so would address the majority of the issues raised by respondents to the post-implementation review, which centred around the difficulty in understanding what is meant by the terms “outcomes” and “outputs”.

BC24. Therefore, the NZASB decided to remove the language around “outcomes” and “outputs” but retain the requirement for a Tier 3 not-for-profit entity to report on what it is seeking to achieve over the medium to long term (i.e. its ‘objectives’) and the significant activities undertaken during the reporting period to achieve these objectives.

BC25. The NZASB also decided to add requirements and/or guidance on:

- (a) how to select appropriate and meaningful measures and/or descriptions;
- (b) what is meant by a “significant activity”; and
- (c) the need for consistency of service performance reporting from year to year (including possible reasons for changes to what an entity reports and how it is reported).

The additional requirements/guidance is aligned with PBE FRS 48.

**Asset Valuation (Section 6)**

BC26. The Tier 3 (NFP) Standard was originally drafted to require all assets to be measured on a cost basis. If a Tier 3 not-for-profit entity wanted to measure any of its assets on a different basis (such as a revalued amount), it was required to opt up to Tier 2 PBE Standards with the exception that an entity may use rateable or government value rather than fair value when revaluing property, plant and equipment assets. Many respondents to the post-implementation review considered that the Standard should include simple requirements for measuring assets such as property, plant and equipment, investment property and financial investments (such as shares, bonds and units in managed funds) on an alternative basis to cost. Other respondents raised practical concerns with the current requirements when opting up to the Tier 2 PBE Standards to revalue assets.

BC27. The NZASB agreed that there is scope to improve and simplify the requirements in the Standard when a Tier 3 not-for-profit entity elects to measure these assets at revalued amounts. Therefore, the NZASB decided to incorporate simplified alternative measurement methods directly in the Tier 3 (NFP) Standard.

BC28. The NZASB agreed to allow property, plant and equipment assets to be revalued with the requirements including the following key features.

- (a) Entities would be permitted to use current council rateable value when revaluing.
- (b) To avoid introducing the concept of other comprehensive income to the Tier 3 (NFP) Standard, revaluation gains would be recognised directly in accumulated funds except to the extent that they reverse a previously recognised impairment charge.
- (c) Revaluation losses would be recognised as an expense in the statement of financial performance except to the extent that they offset a previously recognised revaluation gain.
- (d) Gains on disposal over the carrying amount would be recognised as revenue in the statement of financial performance.
- (e) Revaluation gains and losses are to be offset against each other within a class of revalued assets but must not be offset against gains and losses from another class of revalued assets.
- (f) Entities are still required to recognise depreciation on revalued assets from the date of their most recent revaluation.
- (g) Revaluation gains included in accumulated funds are not to be recycled through the statement of financial performance.

BC29. The NZASB decided to allow investment property assets to be revalued and, in the interest of simplicity, considered it appropriate that investment property be treated in the same manner as property, plant and equipment for this purpose. It was noted that the original drafting of the Tier 3 (NFP) Standard was silent on investment property and so the NZASB also agreed to include a simple definition of investment property in the Standard.

BC30. The NZASB noted that respondents who expressed a desire to revalue their financial investments generally only referred to publicly traded or managed investments. Therefore, the NZASB decided to allow financial investments to be revalued where those investments are publicly traded. Restricting revaluations to only assets of these types was considered to be the most appropriate method to achieve the effect desired by the respondents without introducing the complexity required to allow other types of financial investments to be revalued.

**Categories for Presenting Revenue and Expenses (Section 5)**

BC31. The Tier 3 (NFP) Standard requires revenue and expenses to be aggregated and reported within a set of categories in order to improve the understandability, consistency and comparability of performance reports. While feedback on the post-implementation review was generally supportive of maintaining minimum categories in principle, many respondents considered that the minimum categories could be improved by introducing additional disaggregation and clarifying the application of existing categories.

BC32. After considering the views of respondents the NZASB decided to disaggregate the required categories based on a mixture of both the nature and source of the underlying transactions. The increase in the number of minimum categories is expected to assist preparers in identifying the appropriate category for different types of transactions by being more specific and more clearly defined.

BC33. The NZASB also decided to separate:

- (a) Revenue and expenses which relate solely to commercial activities from other revenue and expenses. As NFP entities have a primary objective to provide goods or services for community or social benefit the NZASB considered that separating the revenue and expenses incurred in pursuit of this objective from those incurred solely to generate a financial return would provide useful information.
- (b) Revenue from grants that are, in substance, a contract for the delivery of goods or services from general grants (where applicable).
- (c) Revenue from government entities and revenue from non-government entities based on feedback from respondents.
- (d) Employee remuneration and other related costs from volunteer and costs based on feedback from respondents.

BC34. Respondents also noted that the extent of disaggregation and relabelling of the minimum categories permitted by the Tier 3 (NFP) Standard was unclear, resulting in diversity in practice. As the amount of mandatory disaggregation has increased (where applicable), the NZASB decided to remove the option to provide further disaggregation in the statement of financial performance.

### **Revenue Recognition (Section 5)**

BC35. In the original drafting of the Tier 3 (NFP) Standard, donations and grants received with “use or return” conditions were recognised as revenue as the conditions over use were satisfied. A “use or return” condition is one where the entity is required to either use the donation or grant as specified by the resource provider or return the funds. Feedback from many respondents to the post-implementation review highlighted concern about the restrictive nature of the “use or return” revenue recognition approach.

BC36. Respondents noted that “use or return” conditions do not provide for appropriate accounting outcomes in practice and limits their ability to explain how funds received from the public was being spent on advancing the entity’s objectives. It was also noted by respondents that the restrictive nature of this revenue recognition approach was negatively impacting the ability of Tier 3 not-for-profit entities to secure multi-year funding arrangements.

BC37. The NZASB considered the feedback from respondents, various international frameworks, and three key factors (i.e. clarity, meeting user needs and auditability). The NZASB decided to introduce the principle of recognising revenue as or when documented resource provider “expectations” over use are satisfied. The NZASB has not defined the term “expectations” but instead has put criteria in the Standard around what constitutes an expectation for revenue recognition purposes.

- (a) An expectation over use is one which the resource provider has communicated to the reporting entity when the funding is initially transferred.
- (b) The expectation must be both documented and agreed between the resource provider and the entity. An expectation is documented when it has been agreed in writing between the reporting entity and the resource provider (or there is some other form of evidence to demonstrate this agreement). This criterion is important from an assurance perspective.
- (c) Only external expectations (i.e. expectations from the resource provider) should be considered for revenue recognition purposes. Internal expectations (i.e. how the entity expects to use the funds) is not a relevant consideration.
- (d) An expectation should be specific enough to allow the reporting entity to reliably demonstrate to the resource provider when the expectation has been satisfied. However, there is no

requirement for the expectation to be enforceable by the resource provider, as the concept of “enforceability” introduces a level of complexity within the Standard that the NZASB does not deem necessary for a Tier 3 entity’s financial reporting.

- BC38. The principle of recognising revenue as (or when) expectations over use are satisfied applies only to significant funds received as a donation, grant or bequest. These revenue streams are the only ones where there may be a resource provider expectation over use. The NZASB considers it to be a rare occurrence when there is a resource provider expectation attached to general fundraising revenue, and so this revenue stream is not within scope of this revenue recognition principle.
- BC39. The NZASB has made it clear in the Standard that the unit of account for the recognition of significant donations, grants and bequests with documented expectations over use, is each separate expectation identified.
- BC40. The timing of revenue recognition is dependent on the nature of the documented expectation over use. Some expectations are naturally satisfied at a point in time (e.g. where the expectation is to purchase an item such as a vehicle), whereas other expectations are satisfied over a period of time (e.g. where the expectation is to use the funding to cover a charity worker’s salary for one year – as each month’s salary is paid, more of the expectation is satisfied). For the purposes of providing guidance to preparers the NZASB has put common scenarios and the likely patterns of revenue recognition within the Standard but has also made an explicit statement in the Standard that judgement will be required to determine an appropriate approach to the timing of revenue recognition.

#### **Accumulated Funds (Section 6)**

- BC41. Respondents considered that greater disclosure was needed about entities’ plans and policies for applying its accumulated funds towards its stated purposes. In responding to this feedback the NZASB was mindful of the significant diversity in the activities and circumstances of NFP entities and the unintended consequences of requiring disclosures that were too specific in nature.
- BC42. Ultimately, the NZASB agreed to expand the disclosures required in the notes to the performance report in the form of a additional narrative information to enable users of an entity’s financial statements to evaluate the entity’s objectives’ policies, and processes for managing its reserves. This specifically includes a brief description of the entity’s plans for applying its accumulated funds toward its stated purposes. Rather than require further specific disclosures it was agreed to provide further guidance on the types of information an entity may wish to disclose towards this.

#### **Opting up (Appendix C)**

- BC43. The Tier 3 (NFP) Standard allows a Tier 3 not-for-profit entity to elect to apply the requirements of Tier 2 PBE Standards to specific types of transactions, as long as it applies the requirements to all transactions of that type. A key piece of feedback from the post-implementation review highlighted a lack of understanding about what to do if the relevant Tier 2 PBE Standard requires revaluation movements to be recognised in other comprehensive revenue and expense.
- BC44. In response to this feedback, the NZASB decided to include a requirement in Appendix C of the Standard to recognise the effects of transactions directly in accumulated funds where there is a requirement in Tier 2 PBE Standards to recognise the effects of those same transactions in other comprehensive revenue and expense. The NZASB decided not to introduce an “other comprehensive revenue and expense” category in the statement of financial performance, to avoid adding unnecessary complexity to the Standard.

#### **Other amendments to the Tier 3 (NFP) Standard**

- BC45. The NZASB decided to make the following additional amendments to the Standard, in response to feedback on the post-implementation review.
- (a) Add a paragraph in Section 3 of the Standard (Entity Information), which permits a Tier 3 not-for-profit entity to incorporate the required information in Section 3 by cross-reference to another document, as long as the document is available to users at the same time as the performance report.



- (b) Align the categories within the statement of cash flows with the categories of revenue and expenditure in the statement of financial performance.
- (c) Include short-term deposits in the definition of cash and define them as deposits “with a maturity of three months or less from the date purchased”. This is in response to feedback on the post-implementation review which noted that the definition of cash in the Standard does not align with Tier 1 and Tier 2 PBE Standards, which can make the consolidation of entities reporting under different tiers more challenging. In the interests of limiting complexity the NZASB decided not to add the term “cash equivalents” or related guidance in the Standard.

## History of Amendments

Reporting Requirements for Tier 3 Not-for-profit Entities (Tier 3 (NFP) Standard) was issued in November 2013.

This table lists the pronouncements establishing and substantially amending Tier 3 (NFP) Standard. The table is based on amendments issued as at 31 **January 2021**.

<b>Pronouncements</b>	<b>Date issued</b>	<b>Early operative date</b>	<b>Effective date (annual financial statements ... on or after ...)</b>
<i>Public Benefit Entity Simple Format Reporting – Accrual (Not-For-Profit) (PBE SFR-A (NFP))</i>	Nov 2013	Early application is permitted	1 April 2015
<i>Interests in Other Entities (Amendments to PBE SFR-A (NFP))</i>	Sept 2014	Early application is permitted	1 April 2015
<i>Amendments to Simple Format Reporting Accounting Requirements as a Consequence of XRB A1</i>	Dec 2015	Early application is permitted	1 Jan 2016
<i>PBE IPSAS 34 Separate Financial Statements</i>	Jan 2017	Early application is permitted	1 Jan 2019
<i>PBE IPSAS 35 Consolidated Financial Statements</i>	Jan 2017	Early application is permitted	1 Jan 2019
<i>PBE IPSAS 36 Interests in Associates and Joint Ventures</i>	Jan 2017	Early application is permitted	1 Jan 2019
<i>PBE IPSAS 37 Joint Arrangements</i>	Jan 2017	Early application is permitted	1 Jan 2019
<i>PBE IPSAS 38 Disclosure of Interests in Other Entities</i>	Jan 2017	Early application is permitted	1 Jan 2019
<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i>	July 2018	Early application is permitted	1 Jan 2019
<b><u>Amendments to Tier 3 (NFP) Standard</u></b>	<b><u>[Month, Year]</u></b>	<b><u>Early application is permitted</u></b>	<b><u>1 Jan 2024</u></b>

<b>Table of Amended Paragraphs in Tier 3 (NFP) Standard</b>		
<b>Paragraph affected</b>	<b>How affected</b>	<b>By ... [date]</b>
Paragraph 1	Amended	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]
Paragraph 2	Amended	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]
Paragraph 3	Amended	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]
Paragraph 4	Amended	<i>Interests in Other Entities</i> [Sept 2014]
Paragraph 4.1 to 4.6	Added	<i>Interests in Other Entities</i> [Sept 2014]
Paragraphs 4.1 to 4.6	Amended	PBE IPSAS 34 [Jan 2017]
Paragraph 4.5	Amended	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]
Paragraph 6	Amended	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]
Paragraph 6	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph 7 and the preceding heading	Amended	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]
Paragraph 7	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph 8	Amended	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]
Paragraph 8	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph 9	Amended	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]
Paragraph 9	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph 11	Added	<i>Interests in Other Entities</i> [Sept 2014]
Paragraph 12	Added	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]
Paragraph 13	Added	PBE IPSAS 34 [Jan 2017]
Paragraph 14	Added	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph 15	Added	PBE IPSAS 41 [Mar 2019]

REPORTING REQUIREMENTS FOR TIER 3 NOT-FOR-PROFIT ENTITIES

<b>Table of Amended Paragraphs in Tier 3 (NFP) Standard</b>		
<b>Paragraph affected</b>	<b>How affected</b>	<b>By ... [date]</b>
Paragraph A1	Amended	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]
Paragraph A10	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph A12	Deleted	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Table 1: <i>Recording of Specific Types of Revenue</i> (follows paragraph A62)	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Table 2: <i>Recording of Specific Types of Expenses</i> (follows paragraph A80)	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Table 3: <i>Recording of Specific Types of Assets</i> (follows paragraph A107)	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph A107.1	Added	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph A107.2	Added	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph A113	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph A114	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph A115	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph A148.1	Added	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph A148.2	Added	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph A175(a)	Amended	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]
Paragraph A180	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph A182	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph A202	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Section 11: Glossary Associate, Consolidated performance report, Control, Controlled entity, Controlling entity, Economic entity, Joint control, Joint venture, Significant influence	Added defined terms	<i>Interests in Other Entities</i> [Sept 2014]

<b>Table of Amended Paragraphs in <u>Tier 3 (NFP) Standard</u></b>		
<b>Paragraph affected</b>	<b>How affected</b>	<b>By ... [date]</b>
Section 11: Glossary Associate, joint arrangement, joint control, joint venture, significant influence	Amended	PBE IPSAS 34 [Jan 2017]
Section 11: Glossary Control, controlled entity, controlling entity, economic entity.	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph B2	Amended	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]
The heading preceding Paragraph B 8 is amended	Amended	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]
Paragraph B9 and the preceding heading	Amended	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]



*Te Kāwai Ārahi Pūrongo Mōwaho*  
**EXTERNAL REPORTING BOARD**

## **Tier 3 (PS) Standard**

### **REPORTING REQUIREMENTS FOR TIER 3 PUBLIC SECTOR ENTITIES**

#### **TIER 3 (PS) STANDARD**

**Issued November 2013 and incorporates amendments to [Month, Year]**

This Standard was issued by the New Zealand Accounting Standards Board, a sub-Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This Standard is secondary legislation for the purposes of the Legislation Act 2019.

## **REPORTING REQUIREMENTS FOR TIER 3 PUBLIC SECTOR ENTITIES**

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ISBN

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<p><i>Reporting Requirements for Tier 3 Public Sector Entities</i> (Tier 3 (PS) Standard) is set out in paragraphs 1–16 and Appendices A, B and C. All the paragraphs in the Standard and Appendices have equal authority. Tier 3 (PS) Standard should be read in the context of its objective, the Basis for Conclusions and Standard XRB A1 <i>Application of the Accounting Standards Framework</i>.</p>
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**Objective**

1. The objective of this Standard is to facilitate financial reporting by public sector public benefit entities that are eligible for and elect to apply the Tier 3 PBE Accounting Requirements for public sector entities, by improving the quality and consistency of the information disclosed in performance reports, and to facilitate comparability between entities, and between years for the reporting entity.

**Scope**

2. This Standard applies to public sector public benefit entities that are eligible for, and elect to apply, the Tier 3 PBE Accounting Requirements. A public sector public benefit entity is eligible to apply this Standard if it:
  - (a) Has total expenses less than or equal to \$2 million; and
  - (b) Does not have public accountability for financial reporting purposes.

Please refer to the Glossary for further information about how "public sector public benefit entity", "total expenses" and "public accountability" are defined for financial reporting purposes.

**Standard**

3. Public sector public benefit entities that are eligible for, and elect to apply, the Tier 3 PBE Accounting Requirements shall prepare a performance report in accordance with the requirements set out in Appendix A and the transitional provisions in Appendix B of this Standard. The requirement to prepare a performance report exists regardless of the term used in any legislation that defines the reporting obligations of the entity, for example annual financial statements.
  - 3.1. An entity that is eligible to apply this Standard, and elects to do so, may elect to apply the requirements of a Tier 2 PBE Standard to a specific type of transaction, in accordance with the requirements set out in Appendix C of this Standard.
4. This Standard applies to an entity that is required to prepare a performance report. The Standard applies to the performance report of single entities and entities that have certain interests in other entities.
  - 4.1 When preparing a performance report, an entity is required to identify its interests in other entities and assess whether, for the purposes of financial reporting, any of those interests result in the other entity meeting the definition of a controlled entity, an associate or a joint arrangement. Refer to Appendix C for further guidance on how to determine the nature of an entity's interest in another entity, as well as for the requirements that an entity must apply when accounting for an interest in a controlled entity, an associate or joint arrangement.
  - 4.2 [Deleted]
  - 4.3 [Deleted]
  - 4.4 [Deleted]
  - 4.5 [Deleted]
  - 4.6 If an entity has an interest in another entity that is not a controlled entity, an associate or a joint arrangement, it accounts for that interest in accordance with the requirements on investments in Section 6 of this Standard.
5. Accompanying this Standard is an explanatory guide containing an optional template and associated guidance notes that illustrate the requirements of this Standard (*Explanatory Guide A3 Optional Template and Associated Guidance Notes for Applying Reporting Requirements for Tier 3 Public Sector Entities*). It is not mandatory to apply the template or guidance notes and they have no legal status. However, when an entity applies the template in the specific circumstances of the entity, the performance report will comply with this Standard.
6. Where this Standard does not provide guidance on a specific type of transaction or event, the entity shall use its judgement to determine an appropriate method of accounting for that

transaction type that results in the performance report providing relevant and faithfully representative information. The entity shall refer to, and consider the applicability of, the following in descending order:

- (a) The principles and requirements in this Standard dealing with similar and related transactions or events; and
- (b) The definitions and concepts in the [PBE Conceptual Framework](#) to the extent that they do not conflict with this Standard.

In making the judgement described above, the entity might also consider (but is not required to apply) the relevant requirements in the Tier 2 PBE Standards dealing with the same, similar or related transactions or events.

7. [Deleted]
8. [Deleted]
9. [Deleted]

### Effective Date

10. A public sector public benefit entity that is eligible to apply this Standard, and elects to do so, shall apply this Standard for periods beginning on or after 1 July 2014. Earlier application is not permitted.
11. *Interests in Other Entities* (Amendments to PBE SFR-A (PS)), issued in September 2014 amended paragraph 4 and the Glossary, and inserted paragraphs 4.1–4.6. A public sector public benefit entity shall apply these amendments for periods beginning on or after 1 July 2014. Earlier application is not permitted.
12. *Amendments to Simple Format Reporting Accounting Requirements as a Consequence of XRB A1*, issued in December 2015, amended paragraphs 1–3, 4.5, 6–9, A1, A43, A177(a) B2 and B9 and the headings preceding paragraphs 7, B8 and B9. It made no changes to the requirements contained in this Standard. A public sector public benefit entity shall apply those amendments for periods beginning on or after 1 January 2016. Earlier application is permitted.
13. PBE IPSAS 34, PBE IPSAS 35, PBE IPSAS 36, PBE IPSAS 37 and PBE IPSAS 38, issued in January 2017 amended paragraphs 4.1–4.6 and the Glossary. A public sector public benefit entity shall apply those amendments for periods beginning on or after 1 January 2019. Earlier application is permitted.
14. *2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements*, issued in July 2018, amended paragraphs 6, 7, 8, 9, A10, A113, A114, A115, A180, A182 and A202, Table 1: *Recording of Specific Types of Revenues* (follows paragraph A62), Table 2: *Recording of Specific Types of Expenses* (follows paragraph A80), Table 3: *Recording of Specific Types of Asset* (follows paragraph A107) and the Glossary, added paragraphs A107.1, A107.2, A148.1, A148.2 and deleted paragraph A12. An entity shall apply those amendments for periods beginning on or after 1 January 2019. Earlier application is permitted.
15. PBE IPSAS 41 *Financial Instruments*, issued in March 2019, amended paragraph 7. An entity shall apply those amendments if and when it applies PBE IPSAS 41.
16. *Amendments to Tier 3 (PS) Standard*, issued in [Month, Year] amended paragraphs [x]. A public sector public benefit entity shall apply those amendments for periods beginning on or after 1 April 2024. Earlier application is permitted.

## **Appendix A: Specific Requirements**

*This Appendix contains the requirements for Reporting Requirements for Tier 3 Public Sector Entities. It is an integral part of the Standard.*

### **Section 1: Introduction**

- A1. This part of the Standard<sup>1</sup> sets out the requirements for the preparation of a simple format report known as the “Performance Report”. The Standard may be applied by eligible public sector public benefit entities (PBEs) that elect to apply this Standard in accordance with the requirements of [XRB A1 Application of the Accounting Standards Framework](#).
- A2. This Standard comprises a number of sections (as shown in the Table of Contents). These refer to specific aspects of reporting. Within each section information is presented in numbered paragraphs to enable cross-referencing within this Standard.
- A3. Terms are defined in the Glossary in section 11 to assist with the understanding of this Standard.

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<sup>1</sup> This Appendix is part of the Standard and so the term “Standard” is used throughout. “Standard” refers to Reporting Requirements for Tier 3 Public Sector Entities abbreviated as Tier 3 (PS) Standard.

## Section 2: Objective of Reporting and Overview of Reporting Requirements

### Users and Their Needs

- A4. The performance report for a public sector PBE is designed for those users who cannot require the entity to disclose the information needed for accountability and decision making. Most users fall into two groups:
- (a) Providers of resources to the entity; and
  - (b) Recipients of services from the entity.
- A5. Examples of these users are:
- (a) Taxpayers or ratepayers who provide funding to an entity, persons who pay fees and charges to an entity, and purchasers of goods or services provided by an entity (resource providers); and
  - (b) Service recipients who benefit from the services provided by the entity (such as pupils of a school or their caregivers).

### Objective of Reporting

- A6. An entity should prepare a performance report that addresses the following questions:
- (a) “Who are we?” – an overview of the entity;
  - (b) “Why do we exist?” – why the entity was established and what it seeks to achieve;
  - (c) “What did we do?” – what the entity did during the year in providing goods or services;
  - (d) “What did it cost?” – what it cost to provide the goods or services, and to run the entity;
  - (e) “How was it funded?” – the sources of revenue used to pay for its activities in providing goods or services;
  - (f) “When did we do it?” – the period covered by the report, and a comparison of information with previous reporting periods;
  - (g) “How did we do our accounting?” – the accounting policies applied; and
  - (h) “What do we need to continue operating?” – the ability of the entity to continue achieving its objectives and operate in the foreseeable future. This question can be answered by looking at the performance report as a whole.
- A7. The performance report is usually prepared for a financial year (which is a twelve-month period that ends on the entity’s “balance date”). The performance report shall identify and reflect the period to which it refers, and contain only the revenue, expenses and cash flows for that period. The performance report may be prepared for a part year, but this is unusual and most likely occurs when the entity is formed or ceases to exist during a year, or changes its balance date. If this is the case, the entity will need to check that the revenue, expenses and cash flows are only for that part year, for example, depreciation and rent.

### Required Components of the Performance Report

- A8. An entity shall prepare a performance report every financial year with, at a minimum, the following components:
- (a) Entity information which explains what the entity is and why it exists (section 3);
  - (b) A statement of financial performance showing what the entity has generated (revenue) and the cost of running the entity (expenses), over the year, so that users and preparers know whether the entity has made a surplus or a deficit for that financial year (section 5);
  - (c) A statement of financial position showing what the entity owns (assets), what the entity owes (liabilities) and the difference (accumulated funds) at the balance date (section 6);
  - (d) A statement of cash flows showing the cash the entity received, and the cash the entity paid out during the year (section 7);

- (e) A statement of accounting policies which explains the accounting rules used to prepare the performance report (section 8); and
  - (f) Notes to the performance report explaining some of the amounts shown in the statements in (b) to (e) above, as well as explaining relevant events affecting the financial year including commitments and contingencies (section 9).
- A9. In addition, a statement of service performance, which explains what the entity did (see section 4), shall be prepared by entities that are required by law to prepare this statement (by whatever name called). The statement of service performance is optional for other entities.
- A10. An entity may change the titles of these statements if the entity considers that an alternative title is more suitable for the entity and users of the performance report. For example, the statement of financial position is sometimes referred to as the balance sheet, and the statement of financial performance is sometimes referred to as the operating statement.

### **Presentation of the Entity's Performance**

- A11. The performance report shall "fairly present" the entity's service performance, financial performance and cash flows over the financial year, and its position at balance date, in accordance with this Standard. Fair presentation is achieved by compliance with this Standard, and also requires an entity to:
- (a) Select and apply appropriate accounting policies (section 8);
  - (b) Present information in the best way to achieve the following goals:
    - (i) **Relevance:** the information can be used to assess the entity's performance.
    - (ii) **Faithful representation:** the information represents what has happened in a way that most users would see as a fair representation of the situation. Information is complete, neutral and free from material error.
    - (iii) **Understandability:** information is presented so that users can identify the main points of the entity's performance in that year and ask questions about that. Users should not have to be a qualified accountant to do this
    - (iv) **Timeliness:** the performance report should be provided as soon as possible following the end of the financial year so that the information is useful and relatively current. For some public sector PBEs legislation defines the period by which the annual performance report must be completed.
    - (v) **Comparability:** users are able to compare what the entity did this year with what the entity did last year. Users might also want to see how the entity performed compared to similar entities in the same sector this year.
    - (vi) **Verifiability:** the information reported is capable of being supported by independent means. Verifiability helps assure users with different levels of knowledge that the information in the performance report is without material error or bias.
- A12. Where the requirements of this Standard have been followed but more information about particular events during the year is needed in order to give users a full picture of what happened, additional relevant information shall be provided.
- A13. [Deleted]
- A14. It is important that the performance report is internally consistent. This is done by cross-referencing each line of a statement to any other information that relates to that line item in the rest of the performance report. For example, the total for property, plant and equipment would be referenced to the note containing the property, plant and equipment schedule. It is also important that any non-financial information, for example, information included within the statement of service performance, is consistent with financial information included elsewhere in the performance report.



**General Information**

- A15. Each component in the performance report specified in paragraphs A8 and A9 shall be clearly identified.
- A16. An entity's performance report shall incorporate all the activities of the entity. The performance report shall include all branches or other operating units, if the entity is structured into more than one unit. This is done by collating and reporting information from all the branches or operating units and excluding all transactions between those units
- A17. The following information shall be displayed prominently, and repeated at the top of each page of the performance report:
- (a) The name of the entity that is preparing the performance report;
  - (b) The date of the end of the financial year covered by the performance report, or the period to which the performance report applies, as appropriate;
  - (c) The currency used in the presentation of the performance report; and
  - (d) The level of rounding used in the presentation of the performance report (as a general rule whole dollars – rather than dollars and cents – should be used; rounding to the nearest hundred or thousand may be appropriate for larger entities).

**Comparative Information**

- A18. Although the performance report focuses on the current financial year's information, comparative information for the previous financial year shall be included in the statement of service performance, statement of financial performance, statement of financial position, statement of cash flows and any associated notes to the performance report unless this Standard specifically allows otherwise. Comparative information shall also be provided for the disclosures about related parties in the notes to the performance report. The performance report may contain further comparative information where it is considered useful for users of the report.
- A19. Entities required by law to publish their budget are required to report budgeted information in an additional column alongside their actual results as further comparative information. Other entities may choose to, but are not required to, report budgeted information (or plans) alongside their actual results.

**Consistency of Presentation**

- A20. An entity shall select and apply its accounting policies consistently for similar transactions and other events, unless this Standard specifically requires or permits categorisation of items for which different policies may be appropriate. If this Standard requires or permits such categorisation, an appropriate accounting policy shall be selected and applied consistently to each category.
- A21. An entity may prepare its performance report on either a GST-inclusive or a GST-exclusive basis, provided that GST is reported in a consistent way throughout the performance report.
- A22. All amounts shall be presented in New Zealand dollars. If the entity has transactions or balances that are not in New Zealand dollars, it shall translate amounts to New Zealand dollars as follows:
- (a) Transactions are to be translated using the exchange rate on the date the revenue, expense or cash flow occurs; and
  - (b) Monetary asset and liability balances are to be translated using the exchange rate at balance date.
- A23. An entity shall not change the way the information is presented, or the categories of disclosure, from one period to the next unless:
- (a) There has been a significant change in the entity's operations;
  - (b) The change in presentation or category of disclosure would provide more useful information for users (refer to paragraph A11(b) for guidance on those characteristics that information should have to make it useful for users); or
  - (c) This Standard requires that the presentation or a category of disclosure is changed.

- A24. Any changes to presentation or categories of disclosure due to the application of paragraph A23 also require similar changes to the comparative amounts, unless it is not reasonably possible to do so.

### **No Offsetting of Amounts**

- A25. Users of the performance report should be given as much relevant information as possible about the entity. Therefore, the entity shall report gross amounts for transactions, and not offset (net-off) any associated transactions or balances. This means that:
- (a) Assets and liabilities shall not be offset against each other; and
  - (b) Revenue and expenses shall not be offset against each other.
- A26. Valuation adjustments such as write-downs of inventory or property, plant and equipment provide for the change in value of an entity's assets. Measuring assets net of valuation adjustments is not considered offsetting. Accounting for the net amount of GST owing to or from Inland Revenue is also not considered offsetting.

### **Significant Items**

- A27. Items are significant if their omission or misstatement could, individually or collectively, influence the decisions or assessment of users relying on the performance report. Significance is considered in relation to both the nature and size of the item, or a combination of both. For the purposes of this Standard, significance has the same meaning as materiality
- A28. Significance applies to both financial and non-financial information.

### **Correction of Errors**

- A29. Significant errors shall be corrected as soon as reasonably possible. Errors arising during the reporting period shall be corrected before the performance report is finalised. Errors relating to past periods shall be corrected in the current performance report before the report is finalised by adjusting the opening balance of the relevant asset, liability or accumulated funds at the beginning of the financial year. No adjustments to past periods are required (see paragraph A214).

### **Changes in Accounting Estimates**

- A30. The use of estimates is an essential part of preparing the performance report on an accrual basis. For example, estimates may be required of:
- (a) Revenue earned to date under a contract;
  - (b) Bad debts arising from uncollected receivables;
  - (c) The current value of old inventory; and
  - (d) The useful lives of items or categories of property, plant and equipment.
- A31. An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. The revision of an estimate does not relate to prior periods and is not the correction of an error.
- A32. The effect of a change in an accounting estimate shall be recorded by including it in the statement of financial performance as part of the relevant revenue or expense item in the current period.
- A33. To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or accumulated funds, it shall be recorded by adjusting the amount of the related asset, liability, or accumulated funds for the current period.

### **Events After the Balance Date**

- A34. Events after the balance date are those events, both favourable and unfavourable, that occur between the balance date and the date when the performance report is finalised. The balance date is the last day of the financial year to which the statements relate. The date of finalisation is the date on which the statements have received approval from the individual or body with the authority to authorise those statements for issue.

- A35. An entity shall adjust the amounts recorded in its performance report and update the related disclosures to reflect events after the balance date that provide evidence of conditions that existed at the balance date. The following are examples of events that require an entity to adjust the amounts recorded in its performance report, or to record items that were not previously recorded:
- (a) The settlement after the balance date of a court case that confirms that the entity had a liability at the balance date.
  - (b) The receipt of information after the balance date indicating that an asset was impaired or damaged at the balance date. For example:
    - (i) The bankruptcy of a debtor that occurs after the balance date usually confirms that a loss already existed at the balance date on a receivable account, and that the entity needs to adjust the carrying amount of the receivable account; and
    - (ii) The disposal of damaged inventories after the balance date may provide evidence about their net realisable value at the balance date.
  - (c) The discovery of fraud or errors that show that the performance report is incorrect.
- A36. An entity shall not adjust the amounts recorded in its performance report to reflect events after the balance date that are indicative of conditions that arose after the balance date. The following are examples of such events:
- (a) The entity decides after the balance date, to incur expenses relating to an activity that occurs after balance date;
  - (b) Purchases and disposals of assets that occur after balance date;
  - (c) A decision by a lender made after balance date to forgive some amounts borrowed by the entity; and
  - (d) The entity enters into significant commitments after the balance date, for example issuing significant guarantees after balance date.

### Section 3: Entity Information

#### Purpose and Value to Users

A37. The purpose of the entity information is to summarise for users what the entity does and how it is organised. This information will assist users in their understanding of the entity and help particularly with their interpretation of the performance report.

#### Required Information

A38. The entity information shall provide general descriptive information about the entity. This information shall comprise:

- (a) The entity's name, type of entity and legal basis (if any);
- (b) The entity's purpose or mission<sup>2</sup> (the key difference the entity is trying to make);
- (c) The entity structure (i.e. whether it includes separate operating units, divisions or branches);
- (d) The entity's governance arrangements (i.e. who makes the key decisions on behalf of the entity); and
- (e) The names of any entities controlled by the entity for financial reporting purposes.

A38.1. The information required by paragraph A38 may be incorporated by cross-reference from the performance report to some other statement or report (e.g. an annual return submitted to a regulator) that is publicly available to users of the performance report at the same time.

A39. The amount of detail will depend on the size of the entity and the complexity of its operations.

A40. [Deleted]

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<sup>2</sup> Also called vision, strategic goals, or outcome goals.

## Section 4: Statement of Service Performance

### Purpose and Value to Users

A41. The purpose of the statement of service performance is to provide information to help users understand what the entity did during the financial year to achieve its objectives.

### Requirement to Complete a Statement of Service Performance

A42. Public sector entities which are required by legislation to provide a statement of service performance (by whatever name called including “statement of performance”) in accordance with generally accepted accounting practice (GAAP) shall prepare a statement of service performance in accordance with this Standard.

A43. This requirement is optional for all other public sector PBEs. However, given the usefulness of this information for users of simple format reports, all public sector PBEs applying this Standard are encouraged to prepare a statement of service performance.

### Required Information

A44. The statement of service performance provides information about:

- (a) What the entity is seeking to achieve over the medium to long term (i.e. its objectives)
- (b) The significant activities the entity has undertaken during the financial year to achieve its objectives; and
- (c) Its significant achievements during the financial year.

A45. The statement of service performance shall:

- (a) Describe what the entity is seeking to achieve over the medium to long term; and
- (b) Describe, and quantify as far as reasonably possible, the significant activities the entity has undertaken, and what it has achieved, during the financial year.

A45.1. The information required by paragraph A44(a) is likely to be closely related to the entity’s mission or purpose. The main difference is that the mission or purpose is usually stated in broad or general terms and applies over the life of the entity. By contrast, the information required by paragraph A45(a) should be more specific, focused on what the entity is seeking to achieve over the medium to long term.

A45.2. The information disclosed in the statement of service performance should be what the entity considers important for a user’s overall understanding of its service performance (i.e. its significant activities and achievements). Therefore, the entity is not expected to include a detailed account of everything it has done in the financial year.

A45.3. To meet the requirement in paragraphs A44(b) and A44(c) the entity shall provide users with an appropriate and meaningful mix of measures and/or descriptions of activities and achievements for the financial year. The measures and/or descriptions used by an entity may include:

- (a) Quantity measures (as far as reasonably possible);
- (b) Quality measures (as far as reasonably possible); and
- (c) A measure of the timeliness of delivery of the entity’s goods or services if this is important to the recipient.

A45.4. The most appropriate and meaningful measures and/or descriptions are those that measure or describe aspects of performance that are of particular value or importance to users for accountability or decision making purposes. Refer to paragraph A11(b) for guidance on the qualitative characteristics that information should have to make it useful for users.

A46. The information disclosed in the statement of service performance should be what the entity considers important for a user’s overall understanding of its service performance (i.e. its significant activities and achievements). Therefore, the entity is not expected to include a detailed account of everything it has done in the financial year.

A46.1. Entities shall present the information in the statement of service performance in whichever format is most helpful to users' understanding of the entity's significant activities and achievements. The Tier 3 template reports provide a generic simple example. For example, an entity may choose to present information using:

- (a) Graphs;
- (b) Tables; or
- (c) Images or infographics showing the entity's activities and achievements during the financial year.

A46.2. Service performance information shall be reported consistently from year to year. If the entity changes what it reports or how it reports its service performance information, it shall explain the nature of those changes, the effect of those changes on the current period's service performance information, and the reason those changes were made. Possible reasons for a change in what is reported and how it is reported include changes in:

- (a) The nature of the entity's activities from the prior period or from what was planned;
- (b) The descriptions of goods and services or the way in which they are aggregated; or
- (c) The measures and/or descriptions used.

Changes to comparative information are permitted, but not required. If an entity chooses to restate comparatives it shall disclose the effect of the changes on that comparative information.

**Optional Information**

A47. An entity may wish to report additional information such as:

- (a) [Deleted]
- (b) Comments on those factors which affect the achievement of the entity's objectives. This might include the working relationships between volunteers and employees, decisions to broaden or narrow the delivery of services, or the impact of factors external to the entity – such as economic, legal and geographical factors; and
- (c) The entity's budget (plans) for the financial year being reported on, and an explanation of actual performance achieved against the plans set by the entity –for some entities this may be a legislative requirement and if so is required rather than optional information.
- (d) [Deleted]

A48. [Deleted]

## Section 5: Statement of Financial Performance

### Purpose and Value to Users

A49. The purpose of the statement of financial performance is to report all revenue and expenses of the entity for the financial year. The statement provides users with information about the entity's financial performance, including its revenue, expenses and the resulting surplus or deficit generated during the financial year.

### Format of Statement of Financial Performance

#### Required Information

A50. The statement of financial performance shall be presented as follows:

Revenue (by category)	xx
Less expenses (by category)	xx
Surplus/(Deficit)	xx

#### Alternative Format

A51. Additional line items, headings and subtotals may be presented in the statement of financial performance when such presentation will help users to understand the entity's financial performance.

A51.1. Where the making of grants and donations is a major activity of the entity, and/or where the entity receives significant grants for capital purposes an entity may elect to present these items separately from other revenue and expenses in accordance with the following format:

Revenue (by category)	xx
Less expenses (by category)	xx
Operating surplus/(deficit)	xx
Revenue from capital grants and donations	xx
Less grants and donations made	xx
Surplus/(Deficit)	xx

### Revenue

A52. Revenue is the cash and other resource inflows of the entity, other than inflows from borrowings, sale of assets, or contributions of capital from owners (see paragraph A55)<sup>3</sup>.

A53. Revenue can come from various sources. Examples include funding from government (either as general funding or for the provision of goods or services), fees and charges (such as registration fees), grants and donations, and proceeds from the sale of goods or services.

A54. Revenue includes only amounts received and receivable by the entity on its own account. Amounts collected on behalf of others (that is, as agent of another entity) are not revenue of the entity. However, if there is a commission involved in this collection arrangement the commission received would be recorded as revenue (see also paragraphs A85–A88).

A55. All public sector PBEs are owned by someone – usually central or local government acting on behalf of the taxpayer or ratepayer. From time to time the owner may contribute capital<sup>4</sup> to the entity. Contributions to the entity by owners are classified as “capital contributed by owners” in the statement of financial position, and not as revenue (see also paragraphs A142–A143). Sometimes the contributions of capital are referred to as “grants” (the entity may need to refer to the nature of the funding agreement in order to determine whether it should be categorised as equity or revenue). In order to account for them correctly such grants will need to be distinguished

<sup>3</sup> See the Glossary for a more detailed definition of revenue.

<sup>4</sup> This is analogous to a for-profit entity where the shareholders contribute share capital.

from grants that are provided to fund the delivery of goods or services (which are accounted for as revenue).

**Required Information**

- A56. In order to make information understandable to users, revenue shall be totalled (i.e., aggregated) and presented separately in categories. The following aggregated categories shall be reported separately in the statement of financial performance when applicable to the reporting entity:
- (a) Donations, koha, bequests and other fundraising revenue;
  - (b) General funding received from central or local government;
  - (c) Grants from non-government organisations;
  - (d) Capital grants;
  - (e) Revenue from service delivery grants/contracts (central or local government);
  - (f) Revenue from service delivery grants/contracts (non-government);
  - (g) Interest, dividends and other investment revenue; and
  - (h) Other revenue.
- A57. Category (b) and (c) above includes all grants received from non-government organisation and all funding received from central or local government which is not explicitly linked to the delivery of specific goods or services. Any fees, charges and other revenue from other organisations and individuals that are in substance a contract for the delivery of goods or services (including student fees, registration fees, licensing fees and examination fees) would be included in category (e) or (f) depending on its source. Category (a) includes donations, koha, bequests and fundraising revenue received from the public or non-government organisations (such as charitable trusts, foundations and other philanthropic agencies).
- A57.1. Category (d) includes any grants received from non-government organisations and funding received from central or local government with an external expectation from the provider that the funds are used to purchase or construct a significant asset.
- A57.2. Category (g) includes any revenue received by the entity from the sale of goods or services as a commercial activity. In this context commercial activities are activities conducted by the entity with an intention to derive a surplus and which do not, in themselves, contribute to the achievement of an entity's stated purposes. Some activities which could be considered commercial in nature may be carried out on a smaller scale, or without the intention to engage in a commercial activity on an ongoing basis. In such cases this revenue would instead be considered fundraising revenue and therefore be included in category (a).
- A58. Entities only need to report against a category specified in paragraph A56 when the category is applicable to the entity. If a category is not applicable, the entity may omit that category from their performance report.
- A59. The categories may be described using terminology appropriate for the entity and need not use the titles used in paragraph A56, provided that the separate categories are still maintained.
- A60. If there is difficulty in determining the category that should be used for a particular transaction, the entity shall make its best estimate of the appropriate classification. This classification shall then be used consistently in future periods so that the information reported is comparable over time.
- A61. [Deleted]
- A62. Disaggregated or additional categories of revenue may be presented in the statement of financial performance where doing so is necessary to provide users with an understanding of the main revenue sources of the entity. Too many categories can make it difficult for users to understand the overall picture. The number of disaggregated or additional categories used should therefore be limited to those that are really necessary.



A63. Further breakdowns or disaggregation of the categories in paragraph A56 may be provided in the notes to the performance report. For example, fees and charges may be disaggregated by type of fees (for example, school fees, examination fees, activity fees). Where the entity receives significant donations and grants, the entity may also elect to include in the notes to the performance report a list of donors or grant providers, together with a summary of their contributions, if it considers that this is useful information. The objective is to provide a breakdown that gives the most useful information to users of the performance report.

***Accounting for Revenue***

A64. Revenue shall be recorded on the occurrence of a recognition event. This is generally when there is a legal right to receive cash either now or sometime in the future. The timing of the recording of specific revenue types is provided in Table 1.

REPORTING REQUIREMENTS FOR TIER 3 PUBLIC SECTOR ENTITIES

**Table 1: Recording of Specific Types of Revenues**

Source	When to Record	Comments
<b>Funding from government/non-government service delivery grants/contracts</b>		
Funding linked to the delivery of goods or services	Record as revenue by reference to the stage of completion of the services at balance date, based on the actual services provided as a percentage of the total services to be provided.	The stage of completion of a service may be determined in many ways including: (a) On an event by event basis if that is the basis for charging; or (b) Services performed to date as a percentage of total services.
Fees and charges in exchange for goods or services	<i>If the goods or services are of similar value in each time period (for example, monthly access to tuition):</i> Record as revenue evenly over the period in which the items are provided to the recipients. <i>If the goods or services vary in value from period to period:</i> Record as revenue proportionally on the basis of the value of each item in relation to the total estimated value of all items covered by the fee or charge.	Any fees or charges received in advance of the period to which they relate should be recorded as a liability.
Other fees and charges	Record as revenue when the fee or charge is due to be received.	Fees and charges such as registration fees that primarily entitle a person to the benefits derived from the payment of the fees and charges and do not require the provision of on-going benefits during the year, should be recorded in this way. However, if the fee or charge is received prior to the year to which it relates, it should be recorded as a liability.
Entrance fees and one-off fees	Record as revenue when the event takes place.	Any fees received for events that have not yet taken place are recorded as a liability.
<b>Donations, koha, bequests and other fundraising revenue</b>		
Insignificant donations and bequests	Record as revenue when cash is received.	Revenue recognition shall not be deferred even if insignificant donations and bequests with expectations over use are significant in the aggregate.
Significant donations and bequests received with no expectations over use	Record as revenue when cash received.	Revenue recognition shall not be deferred even if the reporting entity expects to spend the funding received on related expenditures in future periods.
Significant donations and bequests received with expectations over use	On receipt of the donation or bequest, record asset for funding received (generally cash) and a matching deferred revenue balance. As or when the expectations over use are met the deferred revenue balance is reduced and revenue is recorded.	The deferred revenue balance as at balance date reflects the extent to which the expectations over use (as established and documented by the resource provider) have not yet been satisfied.  Judgement will be required to determine an appropriate approach for determining the point in time at which, or the period over which, the documented expectations are satisfied.

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Source	When to Record	Comments
Donated assets (other than cash)	<p><i>Significant donated assets with useful lives of 12 months or more:</i> Record on receipt at readily obtainable current values (such as local council rateable value for land and buildings).</p> <p><i>Significant donated assets that are difficult to value such as intangible assets, highly specialised assets, and heritage assets:</i> Do not record.</p> <p><i>Other donated assets:</i> Do not record the asset or any revenue from the donation.</p>	<p><i>Significant donated assets that are recorded:</i> Disclose in the notes to the performance report details of the assets in accordance with the disclosure requirements of this Standard in relation to the particular class of asset (see paragraphs A192–A193).</p> <p><i>Significant donated assets not recorded:</i> Details are disclosed in the notes to the performance report (see paragraph A194).</p>
Donated goods or services (other than donated assets)	Do not record.	Significant donated goods or services (including services in kind) are to be disclosed in the notes to the performance report (see paragraph A70).
Fundraising – cash	Record as revenue when cash is received.	May be received in the form of donations or from the sale of goods or services.
Fundraising – other	<p>If the entity receives an asset refer to section on “donated assets” below.</p> <p>If the entity receives goods or services refer to section on “donated goods or services (other than donated assets)” below.</p>	As part of a fundraising campaign the entity may receive donations of assets (other than cash) which it may keep, or the entity may receive donated goods which it may sell to raise funds.
<b>General funding received from central or local government, grants from non-government organisations, and capital grants</b>		
Insignificant grants and general funding received	Record as revenue when cash is received.	Revenue recognition shall not be deferred even if insignificant grants with expectations over use are significant in the aggregate.
Significant general funding or grants received with no expectations over use	Record as revenue when cash is received.	Revenue recognition shall not be deferred even if the reporting entity expects to spend the funding received on related expenditures in future periods.
Significant general funding or grants received with expectations over use	<p>On receipt, record asset for funding received (generally cash) and a matching deferred revenue balance.</p> <p>As or when the expectations over use are met the deferred revenue balance is reduced and revenue is recorded.</p>	<p>The deferred revenue balance as at balance date reflects the extent to which the expectations over use (as established and documented by the resource provider) have not yet been satisfied.</p> <p>Judgement will be required to determine an appropriate approach for determining the point in time at which, or the period over which, the documented expectations are satisfied.</p>
<b>Revenue from <u>commercial activities</u></b>		
Sale of goods	Record as revenue when the goods are sold (this is usually when the goods are received the purchaser).	<p>If the purchaser pays before they receive their goods, the entity records a liability.</p> <p>If the purchaser does not pay on receipt of the goods, the entity records a debtor.</p>

REPORTING REQUIREMENTS FOR TIER 3 PUBLIC SECTOR ENTITIES

Source	When to Record	Comments
Subscriptions to a series of events	Record as revenue as events occur, allocating to each event on a basis that reflects the extent to which services are performed at each event.	Any subscriptions received for events that have not yet taken place are recorded as a liability.
<b>Interest, dividends and other investment revenue</b>		
Interest	Record as revenue as it is earned during the period.	If the borrower pays interest in advance, the entity records a liability being the amount of the advance payment.  If the borrower pays interest in arrears (after the investment period has elapsed), the entity records as an asset, any amount owed to the entity as a receivable.
Dividends and similar revenue	Record as revenue when receivable, for example when the dividend is declared (which would usually be before it is paid).	Dividends declared after the end of the financial year of the entity are not recorded as revenue.
<b>Other revenue</b>		
Commission for acting on behalf of another entity as the agent of that other entity (the principal)	Record as revenue when receivable, which would usually be defined in the agency agreement.	Revenue includes only amounts received and receivable by the entity on its own account, not the amounts collected for the principal.
Lease or rental revenue	Record as revenue on a straight-line basis over the term of the agreement, unless another systematic basis is representative of the time pattern of the user's benefit.	If the lessee pays in advance, the entity (as lessor) records a liability being the amount of the advance payment.  If the lessee pays after the leased asset is used, the entity (as lessor) records, as an asset, any amount owed to the entity.
Gain on sale of an asset	Record as revenue when control of the asset transfers to the new owner.	The gain is the proceeds from the sale less the amount recorded as the value of the asset prior to its sale.

*Insignificant Donations, General Funding, Grants and Bequests*

A64.1. Revenue from insignificant donations, general funding, grants and bequests is recorded when the funding is received.

*Significant Donations, General Funding, Grants and Bequests with No Expectations over Use*

A65. Where there are no expectations communicated from the resource provider about how the funds will be used, revenue from significant donations, general funding, grants and bequests is recorded when the funding is received.

*Significant Donations, General Funding, Grants and Bequests with Expectations over Use*

A66. [Deleted]

A67. Where there are documented expectations (identified in accordance with paragraph A67.1) about how or when the funding received from significant donations, general funding, grants (including capital grants) and bequests will be used, the reporting entity shall record the funding as deferred revenue. As or when the expectations over use are satisfied by the reporting entity, the deferred revenue balance is reduced, and revenue is recorded.

Identifying Expectations

A67.1. An expectation over how or when the funding received from significant donations, general funding, grants and bequests will be used, for the purpose of paragraph A67 arises when:

- (a) the expectation is documented and agreed by both parties – being the resource provider (the funder) and the reporting entity (who receives the transfer of resources from the resource provider, typically in the form of a transfer of cash); and
- (b) the expectation as documented is specific enough to allow the reporting entity to reliably demonstrate to the resource provider (regardless of whether the resource provider monitors the use of the funding provided or not) when the expectation has been satisfied.

A67.2. Examples of specific expectations include obligations to acquire or build a specific asset or assets (e.g. construct a building under the terms of a capital grant); or expectations that the funding will be used for the provision of specific goods or services to third-party beneficiaries, to cover general operating costs over a specified time period, or to support the delivery of specific programmes or activities.

A67.3. An expectation to use funds from significant donations, general funding, grants and bequests to support the general operating costs of the reporting entity over an unspecified period of time is not specific enough to allow for funding received to be recognised as deferred revenue. In these circumstances, revenue is recognised immediately when the funding is received.

A67.4. Internal expectations or decisions by those charged with governance about how or when the reporting entity expects to use funds received from donations, general funding, grants and bequests are not relevant when identifying expectations in accordance with paragraph A67.1.

A67.5. The expectation is documented when it has been agreed in writing between the reporting entity and the resource provider (or there is some other form of evidence to demonstrate this agreement). For an expectation to be both documented and agreed between the parties:

- (a) The resource provider has communicated the expectation to the entity within, for example, a formal contract, memo, letter or email; and
- (b) The entity has communicated acceptance of the expectation to the resource provider by, for example, signing the formal contract, memo or letter; or agreeing to the expectation via email.

A67.6. Where an application for funding sets out how or when the reporting entity expects to use the funds, then approval of the application by the resource provider is sufficient to demonstrate that there is agreement between both parties concerning the expectation over use.

#### Timing of Revenue Recognition

A67.7. The timing of revenue recognition is dependent on the nature of the documented expectation over use. An expectation over use (identified in accordance with paragraph A67.1) will either be satisfied by the reporting entity at a point in time or over a period of time.

A67.8. The unit of account for the recognition of significant donations, general funding, grants and bequests with documented expectations over use, is each separate expectation identified. There may be multiple expectations attached to the funding, which will need to be accounted for separately when reducing the deferred revenue balance and recognising revenue.

A67.9. Judgement will be required to determine an appropriate revenue recognition approach for determining the point in time at which, or the period over which, the documented expectation is satisfied. The following are examples of expectations over the use of funds from significant donations, general funding, grants and bequests, and the different revenue recognition approaches that may be used.

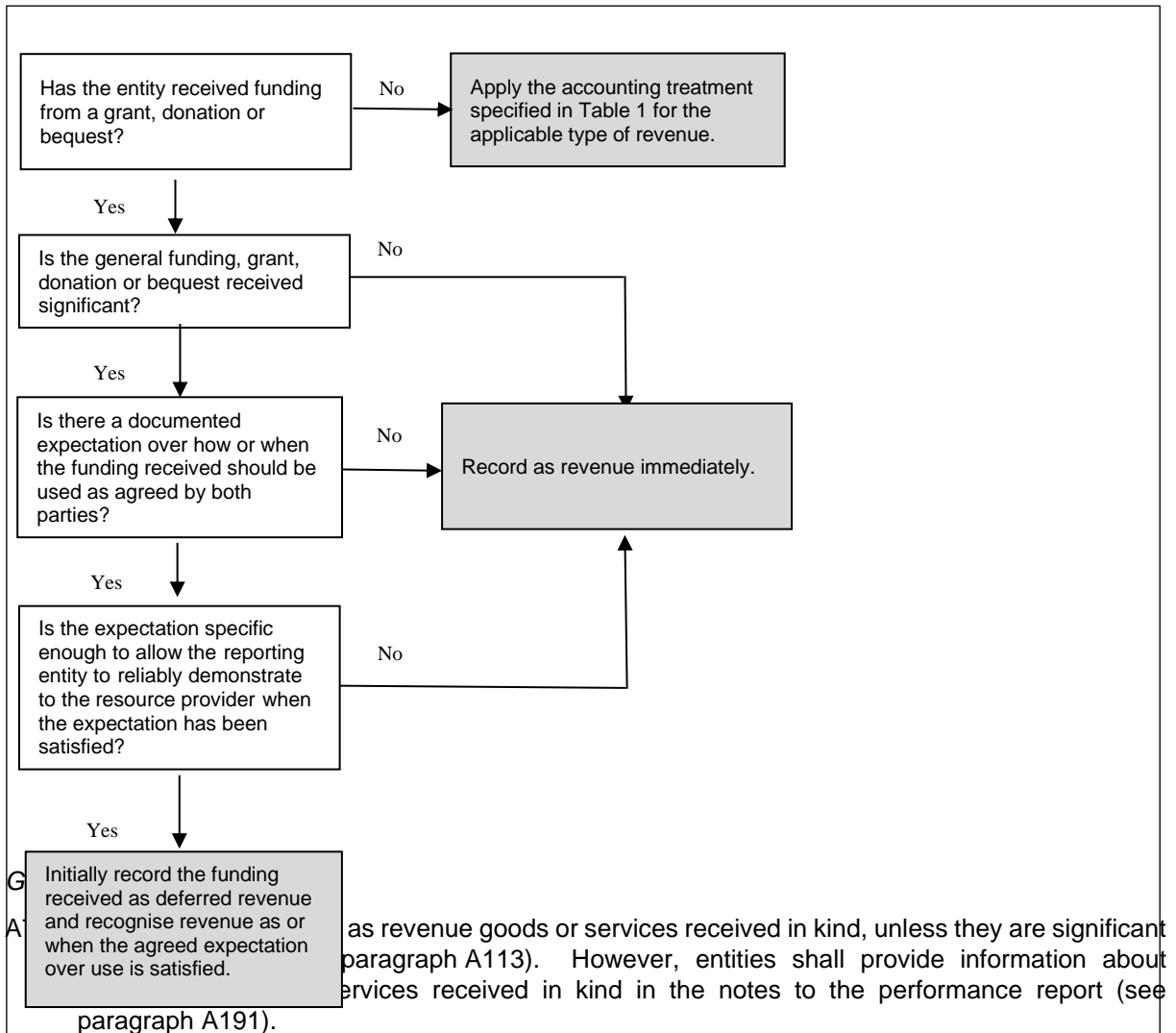
- (a) Deliver specified goods or services to beneficiaries (e.g. to deliver education programmes to 1,000 recipients) – revenue could be recognised as the specified goods or services are delivered.
- (b) Purchase an asset (e.g. a vehicle) – revenue could be recognised at the time the asset is purchased.
- (c) Construct an asset (e.g. building) – revenue could be recognised over the construction period (e.g. on a stage of completion basis).

- (d) Support general operating costs (over a specified time period, e.g., three years) – revenue could be recognised on a straight-line basis over the stipulated time period.
- (e) Host an event or deliver a specific programme or activity – revenue could be recognised on a stage of completion basis as the costs to host the event or deliver the specific programme or activity are incurred.

A68. [Deleted]

A69. Figure 1 provides an overview of the revenue recognition approach for donation, general funding, grant and bequest funding received.

**Figure 1: Decision Tree: Accounting for Grant, Donation and Bequest Revenue**



**Expenses**

- A71. Expenses are the cash and other resource outflows from the entity, other than outflows to settle liabilities or purchase assets, or which are distributions of capital to owners (see paragraph A149)<sup>5</sup>.
- A72. Expenses do not include prepayments. Executory contracts are also excluded (an executory contract is one where neither party has performed their obligation under the contract, for example, inventory that has been ordered but not received and therefore not paid for).

<sup>5</sup> See the Glossary for a more detailed definition of expenses.

A73. Expenses include only amounts paid and payable by the entity on its own account. Amounts paid on behalf of others (that is, as agent of another entity) are not expenses of the entity (see paragraphs A85-A88).

**Required Information**

A74. In order to make information understandable to users, expenses shall be totalled (i.e., aggregated) and presented separately in categories. The following aggregated categories shall be reported separately in the statement of financial performance when applicable to the reporting entity:

- (a) Expenses related to fundraising
- (b) Employee remuneration and other related expenses;
- (c) Other expenses related to service delivery;
- (d) Grants and donations; and
- (e) Other expenses.

A75. Entities only need to report against a category specified in paragraph A74 when the category is applicable to the entity. If a category is not applicable the entity may omit that category from its performance report.

A76. The categories may be described using terminology appropriate for the entity and need not use the titles used in paragraph A74, provided that the separate categories are still maintained.

A77. If there is difficulty in determining the category that should be used for a particular transaction, the entity shall make its best estimate of the appropriate classification. This classification shall then be used consistently in future periods so that the information reported is comparable over time.

A78. Reimbursements for expenses incurred by employees on behalf of the organisation are not classified as employee expenses but are recorded in the appropriate category of expenses, for example, as an expense relating to providing goods or services.

A78.1. Category (b) above includes all remuneration paid to employees of the entity

A78.2. Category (e) above includes all expenses attributable to the activities carried out by the entity in pursuit of their stated purposes (excluding expenses allocated to other categories).

A78.3. Category (d) above includes all expenses attributable to commercial activities carried out the entity (excluding employee remuneration). In this context commercial activities means activities conducted by the entity with an intention to derive a surplus and which do not, in themselves, contribute to the achievement of an entity's stated purposes. Some activities which could be considered commercial in nature may be carried out on a smaller scale, or without the intention to engage in a commercial activity on an ongoing basis. In such cases these expenses would instead be considered fundraising expenses and therefore be included in category (a).

**Optional Information**

A79. [Deleted]

A80. Disaggregated or additional categories of expenses may be presented in the statement of financial performance where doing so is necessary to provide users with an understanding of the main expenses of the entity. Too many categories can make it difficult for users to understand the overall picture. The number of disaggregated or additional categories used should therefore be limited to those that are really necessary.

A81. Further breakdowns or disaggregation of the categories in paragraph A74 may be provided in the notes to the performance report. For example, employee remuneration and other employee related expenditure could be disaggregated into salaries and wages, employer superannuation contributions (for example, KiwiSaver) and other costs relating to employees (for example, ACC levies). The objective is to provide a breakdown that gives the most useful information to users of the performance report.

**Accounting for Expenses**

A82. Expenses shall be recorded on the occurrence of a recognition event. This is where there is a legal obligation to pay cash either now or sometime in the future (this is normally referred to as the point at which an expense is “incurred”). The timing of the recording of specific expense types is provided in Table 2.

**Table 2: Recording of Specific Types of Expenses**

Source	When to Record	Comments
<b>Employee remuneration</b>		
Wages and salaries, <u>and</u> annual leave.	Record the expense as staff provide services and become entitled to wages and salaries and leave entitlements.	Amounts for leave entitlements are recorded as liabilities.  Amounts deducted from staff wages and salaries and held to pay to a third party (for example, Inland Revenue, KiwiSaver) are recorded as liabilities.
Wages and salaries paid in advance	Record the expense when the staff provide services.	Record as an asset (prepayment) until the relevant services are provided.
Performance related bonuses	Record the expense when the employee is notified that the bonus has been granted.	
<b><u>Other employee related expenses</u></b>		
Other (including ACC levies)	Record the expense in accordance with the relevant agreement.	Often recorded as an expense evenly over the period of the agreement.
Superannuation contributions	Record the expense as staff provide services.	This category comprises the entity's contribution to KiwiSaver or other superannuation schemes on behalf of staff. Amounts not yet paid over are recorded as liabilities.  An entity sponsoring a defined benefit plan shall account for that plan in accordance with PBE IPSAS 25 <i>Employee Benefits</i> . <sup>6</sup>
<b>Other expenses related to delivery of entity objectives</b>		
Purchase of inventory for sale or distribution	Record the expense when the goods are sold or distributed.	Where donated inventory is not recorded as an asset, there is no expense to record on sale or distribution.
Inventory written down or written off	Record the expense when it is determined that the amount on the statement of financial position is greater than the value of the inventory (either as a sale or a distribution).	Inventory may lose value as: (a) It ages (for example, fresh food); (b) Future customers would not pay as much for the inventory; (c) Stock becomes obsolete; and (d) The inventory is less valuable to service recipients.
Administration and overhead costs	Record the expense when the cost is incurred.	Examples include premises rental, utilities (rates, power, phone), maintenance, IT costs, stationery etc.

<sup>6</sup> Superseded by PBE IPSAS 39 *Employees Benefits* from 1 January 2019.



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Source	When to Record	Comments
Other costs associated with the delivery of services	Record the expense when the cost is incurred.	
<b>Expenses related to fundraising<sup>7</sup></b>		
Advertising costs, printing of fundraising materials, staff training	Record the expense when the advertising service is received or the other expense is incurred.	This category would include expenses associated with seeking gifts or donations.
Amounts paid to third party fundraisers	Record the expense when it is incurred.	
<b>Expenses related to commercial activities</b>		
Inventory sold or distributed	Record the expense when the goods are sold or distributed.	Where donated inventory is not recorded as an asset, there is no expense to record on sale or distribution.
Inventory written down or written off	Record the expense when it is determined that the amount on the statement of financial position is greater than the value of the inventory (either as a sale or a distribution).	Inventory may lose value as: (a) It ages (for example, fresh food); (b) Future customers would not pay as much for the inventory; (c) Stock becomes obsolete; and (d) The inventory is less valuable to service recipients.
Administration and overhead costs	Record the expense when the cost is incurred.	Examples include premises rental, utilities (rates, power, phone), maintenance, IT costs, stationery etc.
Other costs associated with the delivery of services	Record the expense when the cost is incurred.	
<b>Grants and donations</b>		
Grants and donations made	Record the expense when the grant or donation has been approved and the recipient advised.	
<b>Other expenses</b>		
Interest expense	Record the expense as it is incurred during the period.	This category is the amount paid during the period related to borrowings. Includes any interest amount owing but not yet paid.
Impairment charges (changes in the value of assets) Reversal of an impairment charge recorded in a prior period	Record the expense when it is apparent that an asset is recorded at an amount that is greater than its net realisable value.  Reverse the expense when there is an indication that an impairment charge recorded in a prior period may no longer exist or may have decreased. (see paragraphs A109.1 and A109.2)	The impairment expense is the amount by which the asset's recorded amount is reduced.  Impairment charges mostly relate to property, plant and equipment, inventory, and receivables (which become bad debts).  See also Table 3 for further discussion on impairment.

<sup>7</sup> If expenses are classified under a separate category in this Standard then exclude them from this category. For example, a full-time staff member spends a small proportion of their time involved in fundraising, so their salary is still classified under employee costs. However, if a person is employed on contract solely for fundraising purposes this would be included under expenses related to fundraising.

REPORTING REQUIREMENTS FOR TIER 3 PUBLIC SECTOR ENTITIES

Source	When to Record	Comments
Depreciation	Record the expense at year end based on the established depreciation rate.	See also Table 3 for further discussion on depreciation.
Loss on sale of an asset	Record the expense when control of the asset transfers to the new owner.	The loss is the amount recorded as the value of the asset prior to its sale, less the proceeds from the sale.
Other expenses	Record the expense when it is incurred.	It may be useful to consider the above principles.

**Other Information**

**Required Information**

- A83. The statement of financial performance shall include any additional information that the entity considers necessary for users to understand the financial performance of the entity.
- A84. An entity shall include the entity's budget (or plans) for the current financial year where this is required by legislation. Other entities may include this information if they wish and it is available.

**Amounts Payable or Receivable on Behalf of Others**

- A85. Revenue and expenses include only the amounts relating to the entity on its own account, that is, where it is the "principal". Where the entity is acting as an "agent" (including as a trustee or nominee) for another party (for example, the Government<sup>8</sup>, another entity, or some other third party), the amounts collected or paid belong to that other party rather than the entity.
- A86. An entity is a principal (that is, acting on its own behalf) when:
- (a) The entity has the primary responsibility for providing the goods or services to the beneficiary or customer;
  - (b) The entity establishes the prices, either directly or indirectly, for those goods or services; and
  - (c) The entity bears the customer's credit risk for any amount receivable from the customer.
- A87. An example of the entity as principal is when the entity organises a conference for a group of organisations involved in the same service area, receives the conference fees, and is responsible for all the conference-related payments such as advertising and catering.
- A88. An entity is acting as an agent when it does not have exposure to the significant risks and rewards associated with the transactions. One feature indicating that an entity is acting as an agent is that the amount the entity earns is predetermined, being either a fixed fee per transaction or a stated percentage of the amount billed to the customer.

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<sup>8</sup> For the purposes of this Standard, the collection and payment of GST or PAYE are not considered to be transactions undertaken by the entity as an agent.

## Section 6: Statement of Financial Position

### Purpose and Value to Users

A89. The purpose of the statement of financial position is to provide a snapshot of the entity's assets (what the entity owns), liabilities (what the entity owes) and accumulated funds (the difference between assets and liabilities) at a certain point in time (being the balance date). The statement provides users with information about the financial sustainability of the entity, including the assets that can be used to run the entity in the future, and the liabilities that will have to be settled in future periods.

### Format of Statement of Financial Position

#### Required Information

A90. The statement of financial position shall be presented as follows:

Assets (by category)	xx
Less Liabilities (by category)	xx
Assets less Liabilities	xx
Accumulated Funds (by category)	xx

A91. [Deleted]

A92. [Deleted]

#### Assets

A93. Assets are resources of the entity that are expected to provide benefits to the entity in the future<sup>9</sup>.

#### Required Information

A94. In order to make information understandable to users, assets shall be totalled (i.e., aggregated) and presented separately in categories. The following aggregated categories shall be reported separately and split between current and non-current (see paragraph A104):

- (a) Cash and short-term deposits;
- (b) Debtors and prepayments;
- (c) Inventory;
- (d) Property, plant and equipment; and
- (e) Investments.

A95. Cash and short-term deposits comprise petty cash, cheque or savings accounts, and deposits held at call or with a maturity of three months or less from the date purchased.

A96. Debtors (sometimes called accounts receivable) comprise amounts owed to the entity by customers or others. This includes any GST receivable from Inland Revenue.

A97. Prepayments are expenses paid in advance of a good or service being received by the entity (such as rent, insurance or salaries and wages).

A98. Inventories are materials or supplies that are to be consumed in producing goods or services, held for sale or distribution in the ordinary course of operations, or are in the process of production for sale or distribution. Inventories may include information brochures printed for the entity but not yet distributed, consumable stores, maintenance materials, spare parts for plant and equipment, and work-in-progress, such as educational/training course materials under development.

<sup>9</sup> See the Glossary for a more detailed definition of assets.

- A99. Property, plant, and equipment (sometimes called fixed assets) are tangible items that are used in the production or supply of goods or services, or for administrative purposes, and are expected to be used during more than one financial year.
- A100. Investments are shares, term deposits (with a maturity of more than three months from the date purchased), bonds, units in unit trusts, or similar instruments held by the entity.
- A101. Entities only need to report the minimum categories specified in paragraph A94 separately when the category is applicable and significant to the entity.
- A102. The categories may be described using terminology appropriate for the entity and need not use the titles used in paragraph A94, provided that the separate categories are still maintained.
- A103. If there is difficulty in determining the category that should be used for a particular transaction, the entity shall make its best estimate of the appropriate classification. This classification shall then be used consistently in future periods so that the information reported is comparable over time.
- A104. In presenting the statement of financial position the entity shall identify those assets which are intended to be converted to cash within 12 months of the balance date, for example, debtors that are expected to be collected within a few months of balance date, or inventories that are expected to be sold or used within the next year. These shall then be classified as “current assets”. The remaining assets shall then be classified as “non-current assets”.

**Optional Information**

A105. [Deleted]

A106. [Deleted]

- A107. Additional categories to those in paragraph A94 may be presented in the statement of financial position where doing so is necessary to provide users with an understanding of the main assets of the entity. Too many categories can make it difficult for users to understand the overall picture. The number of additional categories used should therefore be limited to those that are really necessary.
- A108. Breakdowns or disaggregation of the categories in paragraph A92, may be provided in the notes to the performance report, for example, classes of property, plant and equipment, or different types of inventory (such as inventories held for consumption versus inventories held for sale). The objective is to provide a breakdown that gives the most useful information to users of the performance report.

**Accounting for Assets**

- A109. Assets shall be recorded on the occurrence of a recognition event and reported using the measurement basis appropriate for the asset type. Details for recording and measuring specific asset types are provided in Table 3.

**Table 3: Recording of Specific Types of Asset**

<b>Cash and Short-term Deposits (note: bank overdrafts should be separately recorded as a liability)</b>	
When to record	When the cash is received (either in hand or in the bank account).
Measurement	At the amount held.
<b>Debtors</b>	
When to record	When action is taken (such as goods or services sold) to give the entity the right to collect cash in the future.  Compensation due from third parties (such as insurers) for assets that were impaired, lost, or given up should also be recorded as a debtor (and included as revenue in the statement of financial performance).
Initial measurement	At the amount owed.

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When to record impairment	When it is likely that the amount owed (or some portion) will not be collected. Record the loss as a bad debt expense.
Change measurement at balance date	Consider whether any amounts are impaired (see paragraph A110). If the entity charges interest on overdue amounts, add this to the amount of the debtor and record revenue.
When to no longer record	When amount is collected or written off.
<b>Prepayments</b>	
When to record	When payment made.
Initial measurement	At the amount relating to the future goods or services to be received.
When to record impairment	If the entity is unlikely to get the service it has paid for.
Change measurement at balance date	Re-measure at the amount relating to the future services still to be received at that date.
When to no longer record (when to expense)	Once the entity receives the benefit for which it has paid, the prepayment (or portion thereof), is transferred from prepayments and is recorded as an expense.
<b>Inventories</b>	
When to record	When acquired.
Measurement	Purchased inventories: At cost.
When to record impairment	<i>Goods for sale:</i> Write-down to lower of cost and selling price. <i>Goods for use or distribution:</i> Write-down if the value to the entity decreases (for example, materials to be distributed are out of date or damaged).
Change measurement at balance date	Only if impaired.
When to no longer record (when to expense)	When sold, distributed or written off.
<b>Property, Plant and Equipment (including Heritage Assets)</b>	
When to record	When purchased or donated.
Initial measurement	<i>Purchased:</i> Cost (cash price equivalent). <i>Donated:</i> Current value (such as <u>local council</u> rateable value).
When to record impairment	<i>Asset to be sold:</i> If the market price for an equivalent asset falls below the carrying amount of the asset. <i>Asset to be used:</i> If the value to the entity in using the asset falls below the carrying amount of the asset (for example, the entity no longer provides the service supported by the asset).
Change measurement at balance date	<i>Record depreciation:</i> spread the cost of the asset over the expected useful life of the asset, using a structured method such as straight line or diminishing value. Note that land is not depreciated. <i>For classes of asset that the entity elects to revalue:</i> record revaluation gains/losses
When to no longer record	When sold, otherwise disposed of or written off.
<b>Investments</b>	
When to record	When purchased.
Initial measurement	At the amount paid.
When to record impairment	If it appears that the carrying amount of the investment will not be recovered, it shall be written down to the current market price.

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Change measurement at balance date	If the current market price falls below cost. <i>For publicly traded investments the entity elects to measure at current value: record increases/decreases in current value.</i>
When to no longer record	When sold, otherwise disposed of, or written off.
<b>Other Assets</b>	
When to record	When: (a) The asset is acquired; and (b) The asset has a cost or value that can be measured reliably <sup>(a)</sup> .
Initial measurement	At the amount paid or other value that can be measured reliably.
When to record impairment	If it appears that the carrying amount of the asset will not be recovered, that is, it is more than the current market value (if it can be determined).
When to no longer record	When the asset is sold or otherwise disposed of.
(a) Information that is reliable is free from material error and bias and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent.	

*Reversal of Impairment Charges*

A109.1 If there is any indication that an impairment charge recorded in prior periods for an asset

- (a) May no longer exist; or
- (b) May have decreased (i.e. if it is apparent that an asset is recorded at an amount that is less than its net realisable value);

an entity shall reverse all or part of that impairment charge.

A109.2 The reversal of the impairment charge shall:

- (a) In the case of inventories, be limited to the amount of the original write-down;
- (b) In the case of investments, not result in the carrying amount of the asset being recorded at more than its original cost; and
- (c) In the case of property, plant and equipment, not result in the carrying amount of the asset (net of depreciation) being recorded at more than it would have been had the impairment not been recorded.

*Calculating Debtors*

A110. In calculating the value of debtors at the end of each financial year, the entity shall assess whether there is evidence that a receivable may not be collected. The factors to consider are:

- (a) Financial difficulty of the other party;
- (b) A breach of contract by the other party, such as a default in interest or principal payments;
- (c) The entity granting to the other party a concession relating to debt payment; or
- (d) Other information indicating that the receivable may not be collected.

*Heritage Assets*

A111. Some classes of property, plant and equipment may be described as heritage assets because of their cultural, environmental, or historical significance. Examples of heritage assets include historical buildings and monuments, archaeological sites, conservation areas and nature reserves, and works of art.

A112. Heritage assets shall be accounted for in the same manner as other property, plant and equipment (that is, at cost or if donated then at readily obtainable current values). Heritage assets for which current values are not readily obtainable, do not need to be recorded in the statement

of financial position but shall be disclosed in the notes to the performance report (by class if appropriate).

*Donated Assets*

A113. Significant donated assets, such as significant items of property, plant and equipment, shall be recorded at readily obtainable current values (such as local council rateable value for land and buildings), where it is reasonably possible to obtain such current values.

A114. Significant donated assets for which values are not readily obtainable, do not need to be recorded in the statement of financial position but shall be disclosed in the notes to the performance report (by class if appropriate).

*Revaluation of Property, Plant and Equipment*

A115. As specified in Table 3, purchased property, plant and equipment is generally to be measured on a cost basis. However, an entity may elect to revalue a class of property, plant and equipment. Entities are more likely to make such an election when the value of an asset is expected to increase over that asset's life.

A115.1. When electing to apply a revaluation approach, the subsequent measurement approach shall be applied to all assets of that class of property, plant, and equipment.

A115.2. A class of property, plant, and equipment is a grouping of assets of a similar nature or function. Possible types of property, plant and equipment are:

- (a) Land;
- (b) Buildings;
- (c) Motor vehicles;
- (d) Furniture and fixtures;
- (e) Office equipment;
- (f) Computers (including software); and
- (g) Machinery.

A116. When an entity elects to revalue a class of property, plant and equipment, it shall measure an item of property, plant and equipment at its current value less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

A116.1. When a revaluation approach is taken, the current value shall be based on a valuation by a suitably qualified independent valuer or, for land and buildings, a local council rateable valuation may be used.

A116.2. Where an entity elects to revalue a class of property, plant and equipment, it is still required to recognise depreciation on the individual assets. In such cases, depreciation shall be calculated based on the revalued amount from the date of the asset's most recent revaluation.

A117. Electing to revalue a class of property, plant and equipment after initial recognition of the purchased asset is an accounting policy choice. Therefore, once a class of property, plant and equipment is revalued, the entity will need to continue measuring that class of assets at revalued amounts thereafter (rather than reverting to asset cost).

A117.1. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using current value at the reporting date.

A117.2. Where an entity elects to revalue land and buildings based on a local council rateable value it is only required to revalue its land and buildings when that value is updated. The entity shall also disclose, in the notes to the performance report that the local council rateable value may not reflect current market value.

A118. If the entity chooses not to revalue property, plant and equipment but considers that a current value of some assets is useful information for users of the performance report, the entity may

choose to disclose that current value, and the basis (valuation by and independent valuer or the local council rateable value) and date of that valuation in the notes to the performance report.

A118.1. If an entity elects to revalue a class of assets it shall:

- (a) Present a separate revaluation reserve within accumulated funds in the statement of financial position and the notes to the performance report (see paragraph A145);
- (b) Recognise revaluation gains for the type as “Gains/(losses) on the revaluation of property, plant, and equipment” directly in accumulated funds through a separate revaluation reserve, unless they reverse an impairment charge recognised in a prior period (see Table 3 and paragraphs A109.1 and A.109.2);
- (c) Recognise revaluation losses for the class as an expense in the statement of financial performance, except to the extent to which these losses offset any previous revaluation gains. If the revaluation losses offset previous revaluation gains, they are recognised as “Gains/(losses) on the revaluation of property, plant, and equipment” directly in accumulated funds through the associated revaluation reserve; and
- (d) Recognise any gain on disposal over the carrying amount within other revenue in the statement of financial performance as “Gains/(losses) on disposal of property, plant and equipment”.

A118.2. For the purpose of applying paragraph A118.1 revaluation gains and losses relating to individual assets of the revalued class of property, plant and equipment shall be offset against other assets of that class but shall not be offset against assets of different class.

A118.3. Some or all of the revaluation gains included in net assets/accumulated funds in respect of property, plant and equipment may be transferred directly to accumulated surpluses or deficits when the assets are derecognised. This may involve transferring some or the whole of the gains when the assets of the revalued class of property, plant and equipment to which they relate are retired or disposed of. Transfers from the revaluation reserve to accumulated surpluses or deficits are not made through the statement of financial performance.

A118.4. If items of property, plant and equipment are stated at revalued amounts, an entity shall disclose the following in the notes to the performance report:

- (a) The basis (valuation by a suitably qualified independent valuer or current local council rateable value);
- (b) The date of the valuation; and
- (c) The revaluation gain/loss for the period that has been recognised in the revaluation reserve.

#### *Investment property*

A118.5. Some classes of property, plant and equipment may be described as investment property because they are held primarily by the entity to generate rental income or for capital gains rather than for use in the entity’s ordinary activities.

A118.6. Investment property shall be accounted for in the same manner as other items of property, plant and equipment (see Table 3 and paragraphs A115 – A118.4). This means that an entity can choose to account for investment property on a cost or revaluation basis. An entity may elect to present investment property as a separate class of property, plant and equipment.

#### *Investments*

A118.7. As specified in Table 3, investments are to be measured at the amount paid when purchased, less any impairment. However, where an entity holds investments which are publicly traded it may elect to measure those classes of investment at current market value.

A118.8. If an entity elects to measure publicly traded investments at current market value it shall:

- (a) Present a separate revaluation reserve within accumulated funds in the statement of financial position and the notes to the performance report (see paragraph A143);



- (b) Recognise revaluation gains for the investments as “Gains/(losses) on the revaluation of publicly traded investments” directly in accumulated funds through a separate revaluation reserve, unless they reverse an impairment charge recognised in a prior period (see Table 3 and paragraphs A109.1 and A109.2);
- (c) Recognise revaluation losses for the investment as an expense in the statement of financial performance, except to the extent to which these losses offset any previous revaluation gains. If the revaluation losses offset previous revaluation gains they are recognised as “Gains/(losses) on the revaluation of publicly traded investments” directly in accumulated funds through the associated revaluation reserve; and
- (d) Recognise any gains on disposal over the carrying amount within other revenue in the statement of financial performance as “Gains/(losses) on disposal of publicly traded investments”.

A118.9. If investments are reported at current market value an entity shall disclose:

- (a) The accounting policies for investments, including the basis on which current market value was determined (for example, NZX-quoted price at the balance date).
- (b) In the notes to the performance report, an analysis of investments by class reconciling the opening and closing carrying amounts of each class of investment, with those held at current market value being displayed separately from those held at cost less impairment.

*Assets Held on Behalf of Others*

A119. Assets held as an agent (including as a trustee or nominee) on behalf of another person, entity or other third parties are not recorded as assets of the entity. The statement of financial position should include only assets held by the entity on its own account as principal (see paragraphs A85–A88 for a discussion on principals and agents)

**Liabilities**

A120. Liabilities are the amounts owed by the entity at balance date<sup>10</sup>.

**Required Information**

A121. In order to make information understandable to users, liabilities shall be totalled (i.e., aggregated) and presented separately in categories. The following aggregated categories shall be reported separately and split between current and non-current (see paragraph A130):

- (a) Bank overdraft;
- (b) Creditors and accrued expenses;
- (c) Employee costs payable;
- (d) Deferred revenue; and
- (e) Loans.

A122. Creditors (sometimes called accounts payable) are amounts owing to suppliers to pay for goods or services that have been acquired in the course of the entity’s operations. GST payable to Inland Revenue is also part of creditors.

A123. Accrued expenses are costs incurred but not yet paid. This includes electricity, gas, telephone services used but not yet paid; water and local authority rates payable but not yet paid, and rent for the use of premises not yet paid.

A124. Employee costs payable are amounts owing to, but not yet paid to employees. This category includes wages and salaries earned but not yet paid, holidays earned but not yet taken (holiday pay accrual), ACC contributions owing, PAYE withheld from employees’ remuneration but not yet paid over to Inland Revenue, and contributions to superannuation schemes (such as KiwiSaver) or other post-employment benefit schemes collected but not paid over.

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<sup>10</sup> See the Glossary for a more detailed definition of liabilities.

A125. [Deleted]

A126. Loans are amounts borrowed by the entity. These are likely to be relatively uncommon amongst entities applying this Standard.

A127. Entities need report only the minimum categories specified in paragraph A121 separately when the category is applicable and significant to the entity.

A128. The minimum categories may be described using terminology appropriate for the entity and need not use the titles used in paragraph A121, provided that the separate categories are still maintained.

A129. If there is difficulty in determining the category that should be used for a particular transaction, the entity shall make its best estimate of the appropriate classification. This classification shall then be used consistently in future periods so that the information reported is comparable over time.

A130. In presenting the statement of financial position the entity shall identify those liabilities which are due to be paid within 12 months of the balance date, which shall then be classified as “current liabilities”. The remaining liabilities shall then be classified as “non-current liabilities”.

A130.1. The balance of deferred revenue with respect to unsatisfied resource provider expectations over significant donation, grant and bequest funding at balance date shall be reported as a category of liabilities in the statement of financial position.

**Optional Information**

A131. [Deleted]

A132. Additional categories to those in paragraph A121 may be presented in the statement of financial position where doing so is necessary to provide users with an understanding of the main liabilities of the entity. Too many categories can make it difficult for users to understand the overall picture. The number of additional categories used should therefore be limited to those that are really necessary.

A133. Breakdowns or disaggregation of the categories in paragraph A121, may be provided in the notes to the performance report, for example, a breakdown of loans. The objective is to provide a breakdown that gives the most useful information to users of the performance report.

**Accounting for Liabilities**

A134. Liabilities shall be recorded on the occurrence of a recognition event and reported using the measurement basis appropriate for the liability type. Details for recording and measuring specific liability types are provided in Table 4.

**Table 4: Recording of Specific Types of Liability**

<b>Bank Overdraft</b>	
When to record	When the overdraft occurs.
Measurement	At the amount of the actual overdraft (not the overdraft facility).
<b>Creditors and Accrued Expenses</b>	
When to record	When transaction occurs that creates the payment obligation, for example, on the receipt of goods or services from a supplier.
Initial measurement	At the amount owing. If the entity has not received a supplier invoice it shall record an accrual for an estimate of the amount to be paid
Change measurement at balance date	Review in case some part has been paid or is no longer owed (for example, a supplier changes the arrangement to donations of goods therefore revenue will be recorded).
When to no longer record	When settled.
<b>Employee Costs Payable</b>	

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When to record	When an employee has earned the entitlement or the entity has withheld amounts from wages and salaries already paid. It is uncommon for entities with paid employees to have no employee costs payable.
Initial measurement	At the amount to be paid.
Change measurement at balance date	If employees have been granted increased wages and salaries, amounts owing may change (for example, annual leave is based on amounts to be paid when the employee is expected to take the leave).
When to no longer record	When settled.
<b>Deferred Revenue</b>	
When to record	When a significant donation, grant or bequest with expectations over use is received.
Initial measurement	At the amount of the donation, grant or bequest received.
Change measurement at balance date	Assess whether (or to what extent) expectations over use have been satisfied. If expectations have not been fully satisfied, assess the amount of the donation, grant or bequest that relates to expectations which have not yet been satisfied.
When to no longer record	When the expectations over use are satisfied.
<b>Provisions</b>	
When to record	When an event has occurred that leads to an obligation.
Initial measurement	At the entity's best estimate of the amount to be paid.
Change measurement at balance date	Review the estimate of the amount of the obligation in light of conditions at balance date.
When to no longer record	When no obligation remains.
<b>Loans</b>	
When to record	When the amount borrowed has been received.
Initial measurement	At the amount borrowed from the lender (usually referred to as the loan principal).
Change measurement at balance date	Include any loan principal outstanding and any interest owing that has not yet been paid.
When to no longer record	When all principal and interest has been paid.

*Provisions*

A135. A provision is a liability of uncertain timing or amount. For example, an entity's lease of office premises may contain conditions that require the premises to be renovated at the end of the lease, so a provision for this is established.

A136. A provision shall be recorded as a liability when:

- (a) The entity has a present obligation (legal or constructive) as a result of a past event;
- (b) It is probable that the entity will have to settle the obligation; and
- (c) The entity can make a reliable estimate of the amount of the obligation.

A137. The use of estimates is an essential part of the preparation of performance reports, and does not undermine their reliability. This is especially true in the case of provisions, which by their nature are more uncertain than most other liabilities. Except in extremely rare cases, an entity should be able to make an estimate of the obligation that is sufficiently reliable to use in recording a provision.

*Possible Future Liabilities*

A138. The only liabilities recorded in an entity's statement of financial position are those where obligations exist at the balance date as a result of a past event. Therefore, no provision should be made for liabilities that might result from a future event as these liabilities don't yet exist. For example, costs likely to be incurred in the future in order to continue an entity's activities in the future are not liabilities. Neither are expected future operating losses.

*Contingent Liabilities*

A139. Contingent liabilities are not recorded in the statement of financial position but are reported in the notes to the performance report (see paragraphs A201–A203).

**Accumulated Funds**

A140. The accumulated funds balance is the difference between the assets and liabilities of the entity. It is therefore the component that balances the statement of financial position. The accumulated funds balance represents the net assets available to the entity to fulfil its objectives in the future. In the for-profit sector the equivalent term is equity.

A140.1. Movements in accumulated funds include the surplus or deficit for the year, revaluation reserve movements, and other transactions directly with owners in their capacity as owners. In general, transactions with owners (described as capital contributed by owners in paragraph A142 below) are uncommon for public sector entities and most transactions are recorded through the statement of financial performance rather than directly through the Accumulated Funds balance.

A140.2. For the purposes of applying the requirements in this Standard, the term "owners" specifically refers to those who have made capital contributions as described in paragraph A142 below. The term "owners" can include individuals or other entities.

**Required Information**

A141. In order to make information understandable to users, accumulated funds shall be aggregated and presented separately in categories. The following aggregated categories shall be reported separately, where they are applicable to the entity:

- (a) Capital contributed by owners (if any);
- (b) Accumulated surpluses or deficits; and
- (c) Reserves:
  - (i) Restricted reserves;
  - (ii) Discretionary reserves;
  - (iii) Revaluation reserves; and
  - (iv) Other reserves.

A141.1. When an entity elects to apply the requirements of a Tier 2 PBE Standard to a specific type of transaction, in accordance with the requirements set out in Appendix C of this Standard, it may be required to present additional categories of accumulated funds balances based on the requirements of the Tier 2 PBE Standard applied.

A142. The capital contributed by owners category represents contributions to the entity by owners in their capacity as owners that:

- (a) Conveys to owners the entitlement to:
  - (i) Distributions by the entity during its life; and/or
  - (ii) Distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or
- (b) Gives the owner a voice in the management of the entity as an owner; and/or
- (c) Can be sold, exchanged, transferred, or redeemed.

A143. [Deleted]

A144. The accumulated surpluses or deficits category represents the total of all the surpluses and deficits from the commencement of the entity, excluding any transactions with owners in their capacity as owners (if any), and amounts transferred to other reserves.

A145. Reserves are of four types:

- (a) Restricted reserves which may be used only for a particular purpose (the restriction). The restriction may apply to the use of revenue from the funds such as interest received, or to changes to the capital fund, or to both. To be a restricted reserve the restriction must be set by an external party, and must not be able to be satisfied (in which case it is likely the funds will meet the criteria for recognition as deferred revenue, see paragraphs A66 – A68) for example:
  - (i) A bequest which specifies that the funds received may only be invested and that any investment returns may be used as the entity sees fit.
  - (ii) [Deleted]
  - (iii)
- (b) Discretionary reserves that have been created by a transfer from accumulated surpluses or deficits as an internal decision of the entity so that it sets aside resources for a particular purpose. A feature of this type of reserves is that they may be transferred back to accumulated surpluses or deficits whenever the entity chooses.
- (c) Revaluation reserves which represent the increase in value of items of property, plant and equipment over their carrying amounts (where an entity has elected to measure such items at revalued amounts).
- (d) Other reserves which have been created to present the effect of transactions recognised directly in accumulated funds as a result of the entity electing to apply the requirements of a Tier 2 PBE Standard in lieu of the requirements in this Standard (refer to Appendix C).

A146. Entities need report only the minimum categories specified in paragraph A141 separately when the category is applicable to the entity.

A147. The minimum categories may be described using terminology appropriate for the entity and need not use the titles used in paragraph A141, provided that the separate categories are still maintained.

***Accounting for Accumulated Funds***

A148. Capital contributed by owners shall be recorded at the amount received or paid to owners in their capacity as owners.

A149. Accumulated surpluses or deficits shall be recorded at the opening balance plus the current period's surplus or deficit from the statement of financial performance, plus any transfers to/from reserves.

A150. Reserves shall be recorded as follows:

- (a) Restricted and discretionary reserves shall be recorded at the opening balance of the reserve plus/minus transfers to/from accumulated surpluses or deficits.
- (b) Revaluation reserves shall be recorded at the opening balance of the reserve plus/minus the increase/decrease in value of each type of property, plant and equipment required to be recognised directly in accumulated funds (where an entity has elected to measure such items at revalued amounts).
- (c) Other reserves shall be recorded at the opening balance of the reserve plus/minus any amounts required to be recognised directly in accumulated funds as a result of an entity

electing to apply the requirements of a Tier 2 PBE Standard in lieu of the requirements in this Standard (refer to Appendix C).

**Approval and Issue of Performance Report**

A150.1 It is important for users to know when the performance report was authorised for issue, as the performance report does not reflect events after this date. The performance report is authorised for issue when it is signed and dated by the body or individuals with the authority to approve the performance report for issue.

***Required Information***

A150.2 An entity shall disclose in the performance report the date the performance report was approved and authorised for issue, who gave that authorisation and the relevant signature(s).

**Other Information**

***Required Information***

A151. The statement of financial position shall include any additional information that the entity considers necessary for users to understand the financial position of the entity.

A152. An entity shall include the entity's budget (or plans) for the current financial year where this is required by legislation. Other entities may include this information if they wish and it is available.

## Section 7: Statement of Cash Flows

### Purpose and Value to Users

A153. The purpose of the statement of cash flows is to provide information about the cash flows of the entity, which can have a different timing to the accruals that are reported in the statement of financial performance. Cash flow information allows users to determine how much cash the entity has received, and how the cash was used during the year. An understanding of an entity's cash flows is helpful to users in making decisions about the sustainability of the entity and whether funds received have been appropriately spent on advancing the entity's objectives.

A154. [Deleted]

### Format of Statement of Cash Flows

#### Required Information

A155. The statement of cash flows shall be presented as follows:

Cash Flows from Operating Activities (by category)	xx
Cash Flows from Other Activities (by category)	xx
Net Increase/(Decrease) in Cash	xx
Add Opening Cash Balance	xx
Closing Cash Balance	xx

A156. [Deleted]

A157. Other activities are the acquisition and disposal of long-term assets and other investments not included in the cash balance. For example, the purchase of property, plant and equipment, or investments. It also comprises receipts and payments relating to long-term borrowing by the entity (the principal amount only), and any capital contributions to/from owners (if any).

A158. Operating activities are the activities of the entity that are carried out as part of its normal operations, for example, the funding received and the costs paid in delivery of the entity's objectives.

A159. The statement of cash flows does not include:

- (a) Cash receipts collected and payments made on behalf of others when the cash flows reflect the activities of the other party rather than those of the entity (see paragraphs A85–A88). For example, rent collected on behalf of, and paid over to, the owners of properties; and
- (b) Transactions not involving cash, for example depreciation and donated goods or services.

### Cash Flows from Operating Activities

#### Required Information

A160. In order to make information understandable to users, cash flows from operating activities shall be aggregated and presented separately in categories. The following aggregated categories shall be reported separately:

#### Cash Received:

- (a) Donations, koha, bequests and other fundraising receipts from the public or non-government organisations;
- (b) Grants from non-government organisations;
- (c) General funding received from central or local government;
- (d) Capital grants received;
- (e) Funding from government service delivery grants/contracts;
- (f) Funding from non-government service delivery grants/contracts;

- (g) Interest, dividends and other investment receipts; and
- (h) Other cash received.

*Cash Payments:*

- (i) Payments related to fundraising;
- (j) Employee remuneration and other related payments;
- (k) Payments related to service delivery;
- (l) Grants and donations paid; and
- (m) Other payments.

A161. Entities only need to report against a category specified in paragraph A160 when the category is applicable to the entity. If a category is not applicable, the entity may omit that category from its performance report.

A162. The categories may be described using terminology appropriate for the entity and need not use the titles used in paragraph A160, provided that the separate categories are still maintained.

A163. If there is difficulty in determining the category that should be used for a particular transaction, the entity shall make its best estimate of the appropriate classification. This classification shall then be used consistently in future periods so that the information reported is comparable over time.

A164. [Deleted]

A165. [Deleted]

A166. Further breakdowns or disaggregation of the categories in paragraph A160 may be provided in the notes to the performance report, for example, a breakdown of cash payments related to the entity's main activities. The objective is to provide a breakdown that gives the most useful information to users of the performance report.

**Cash Flows from Other Activities**

***Required Information***

A167. In order to make information understandable to users, cash flows from other activities shall be aggregated and presented separately in categories. The following aggregated categories shall be reported separately:

*Cash Received:*

- (a) Sale of property, plant and equipment;
- (b) Sale of investments;
- (c) Cash drawn down from loans from other parties; and
- (d) Cash received from owners (capital contributions).

*Cash Payments:*

- (e) Payments to acquire property, plant and equipment;
- (f) Payments to purchase investments;
- (g) Repayments of loans borrowed from other parties; and
- (h) Capital distributed to owners.

A168. Investments are shares, term deposits (with a maturity greater than 3 months), fixed interest bonds, units in unit trusts, or similar instruments held by the entity. Investments also include loans made to other entities.

A169. Entities only need to report against a category specified in paragraph A167 when the category is applicable to the entity. If a category is not applicable, the entity may omit that category from its performance report.



A170. The categories may be described using terminology appropriate for the entity and need not use the titles used in paragraph A167, provided that the separate categories are still maintained.

A171. If there is difficulty in determining the category that should be used for a particular transaction, the entity shall make its best estimate of the appropriate classification. This classification shall then be used consistently in future periods so that the information reported is comparable over time.

### **Cash Balances**

#### ***Required Information***

A172. Cash balances is the same amount reported as “cash and short-term deposits” less bank overdrafts as reported in the statement of financial position. It includes petty cash, cheque or savings accounts, at call deposits or with a maturity of three months or less from the date purchased, and bank overdrafts (see paragraph A95).

## Section 8: Statement of Accounting Policies

### Purpose and Value to Users

A173. The purpose of the statement of accounting policies is to disclose the specific policies and practices applied by the entity in preparing its performance report. This provides users with an understanding of the basis on which the performance report has been prepared.

### Format of Statement of Accounting Policies

#### *Required Information*

A174. The statement of accounting policies shall comprise two components;

- (a) Accounting policies applied; and
- (b) Changes in accounting policies.

### Accounting Policies Applied

A175. Accounting policies applied are the specific policies and practices used by the entity in preparing its performance report for the reporting period.

#### *Required Information*

A176. As a **minimum**, the following shall be included in the statement of accounting policies.

#### *Basis of Preparation*

A177. The statement of accounting policies shall disclose that:

- (a) The entity is eligible to apply this Standard, the criteria specified in XRB A1 that allows it to do so, and the fact that it has elected to do so;
- (b) All transactions are reported using the accrual basis of accounting; and
- (c) The performance report has been prepared on the assumption that the reporting entity is a going concern, or if this is not the case the fact that the performance report has been prepared on the basis that the entity will not continue to operate for more than 12 months in the future (see paragraph A178).

A178. The performance report is normally prepared assuming that the entity will continue in operation for the foreseeable future (normally considered to be a minimum of 12 months from balance date). This assumption may not be appropriate in some circumstances. For example, it may not be appropriate if the governing body determines after the balance date either (a) that there is an intention to liquidate the entity or to cease operating, or (b) that there is no realistic alternative but to do so. If the assumption of continuity is not appropriate this needs to be disclosed in the statement of accounting policies (additional disclosures are also required in the notes to the performance report – see paragraph A212). The entity shall consider whether different specific accounting policies are more appropriate in these circumstances, for example valuing assets at fire sale value.

#### *Goods and Services Tax (GST)*

A179. The statement of accounting policies shall disclose:

- (a) Whether the entity is registered for GST; and
- (b) Whether the performance report is prepared on a GST-inclusive or GST-exclusive basis.

#### *Specific Accounting Policies*

A180. The statement of accounting policies shall disclose the accounting policies for each significant type of transaction or balance. These policies shall be consistent with the requirements of this Standard (including the requirements of paragraph 6).

A181. The policies may be reported at an appropriate level of aggregation, for example, “revenue from the sale of services” as a category of accounting policies.

A182. Where an entity has elected to apply the requirements of a PBE Standard that is part of the Tier 2 PBE Accounting Requirements in place of a requirement of this Standard (see [Appendix C](#)), the PBE Standard applied shall be disclosed.

**Changes in Accounting Policies**

A183. A change in the accounting treatment, recording, or measurement of a transaction or other event is regarded as a change in accounting policy. For example, the initial application of a policy to revalue assets (rather than measuring them at cost) is a change in accounting policy.

A184. An entity shall change an accounting policy only if the change:

- (a) Is required by this Standard; or
- (b) Is in accordance with this Standard and results in the statements providing more faithfully representative or more relevant information about the effects of transactions or other events and conditions on the entity's service performance, financial performance, financial position, or cash flows.

**Required Information**

A185. When an entity changes its accounting policy an entity shall disclose:

- (a) The reason for the change, a description of the change in policy, and how and from when this change in policy has been applied; and
- (b) For the current period, for each statement line item affected, the amount as calculated under the previous accounting policy.

A186. Where there have been no changes to accounting policies during the reporting period, that fact shall be reported.

**Accounting for Changes in Accounting Policies**

A187. Changes in accounting policies shall be applied from the beginning of the current reporting period.

## Section 9: Notes to the Performance Report

### Purpose and Value to Users

A188. The notes to the performance report contain information that expands on the information included in other parts of the performance report as well as providing any additional relevant information. This is designed to provide users with a greater understanding of the information reported in the statements of service performance, financial performance, financial position and cash flows.

### Required Information

A189. The following matters shall be included in the notes to the performance report.

A190. [Deleted]

#### ***Deferred Revenue: Unused Significant Donations, Grants and Bequests with Expectations over Use***

A190.1. Where the entity has received a significant donation, grant or bequest where revenue recognition has been deferred at the balance date, the entity shall disclose in the notes to the performance report information to help readers understand:

- (a) The purpose and nature of the expectations over future use; and
- (b) When the entity expects to satisfy the remaining expectations over use.

#### ***Goods or Services in Kind Provided to the Entity***

A191. An entity shall disclose in the notes to the performance report a description of any significant goods or services in kind provided to the entity during the financial year, such as free professional services. A dollar quantification may be provided but is not required.

#### ***Property, Plant and Equipment***

A192. For each class of property, plant and equipment recorded in the statement of financial position, the entity shall disclose in the notes to the performance report:

- (a) A description of the asset class (for example, equipment, furniture);
- (b) The carrying amount of the asset class at the beginning of the financial year;
- (c) The depreciation and/or impairment expense recorded for the asset class for the financial year;
- (d) The amount of any revaluation gain/loss recognised in the revaluation reserve for the financial year (where the entity has elected to measure such items at revalued amounts); and
- (e) The carrying amount of the asset class at the end of the financial year.

A193. The entity shall disclose the source and date of the valuation of assets for any assets recorded at valuation (such as significant donated assets) and any other assets for which the entity has chosen to disclose a current value (see paragraphs A115–A118.4).

**Investments**

A193.1. Where the entity has elected to measure a type of investments at its current market value (see paragraphs A118.7 – A118.9) the entity shall disclose for each type of investment in the notes to the performance report:

- (a) A description of the asset type (for example, shares, bonds);
- (b) Whether the asset type is held at current market value or cost less impairment;
- (c) The carrying amount of the asset type at the beginning of the financial year;
- (d) The amount of any revenue/expense recognised in the statement of financial performance due to changes in the market value of the asset class for the financial year; and
- (e) The carrying amount of the asset type at the end of the financial year.

A193.2. For each type of investment held at current market value the entity shall also disclose the source and date of the valuation (for example, NZX-quoted price at the balance date).

**Significant Donated Assets not Recorded**

A194. Where significant donated assets have not been recorded in the statement of financial position because values are not readily obtainable (see paragraph A114), the entity shall disclose in the notes to the performance report a description of the asset, categorised by class where appropriate.

**Significant Heritage Assets not Recorded**

A195. Where significant heritage assets have not been recorded in the statement of financial position because values are not readily obtainable (see paragraph A112), the entity shall disclose in the notes to the performance report, a description of the asset, categorised by class where appropriate.

**Assets Used as Security for Liabilities**

A196. If an entity has used any of its assets as security for loans borrowed, the entity shall disclose in the notes to the performance report information about:

- (a) The nature and amount of the loan that is secured; and
- (b) The nature and amount of the asset(s) used as security.

**Assets Held on Behalf of Others**

A197. Where an entity is acting on behalf of another entity as its trustee, nominee or agent, the following matters shall be disclosed in the notes to the performance report:

- (a) A description of the assets which it holds in this capacity; and
- (b) The name of the entity on whose behalf the assets are held.

**Changes in Accumulated Funds**

A198. The notes to the performance report shall include an explanation of the movements between the opening and closing balances for each category of accumulated funds. An entity shall also disclose the nature and purpose of each restricted and discretionary reserve.

A198.1. An entity shall disclose information that enables users of its financial statements to evaluate the entity's objectives, policies, and processes for managing its reserves.

A198.2. In meeting the requirements of paragraph A197.1 for restricted reserves, an entity shall disclose a description of the purpose of the reserve and the nature of the restriction on the reserve.

A198.3. In meeting the requirements of paragraph A 196.1 for discretionary reserves an entity shall disclose a brief description of the purpose of the reserve, the entity's general plans for applying the reserve towards its stated purposes, and when the entity expects the reserve will be applied.

A198.4. Information which an entity may consider disclosing in meeting the requirements of paragraphs A198.2 and A198.3 includes:

- (a) Whether the entity intends to begin any significant projects to which the reserve will be applied;
- (b) To what extent the entity's reserve represents investments in assets. This can be property, plant and equipment that are used in pursuit of its stated purposes in future periods. It can also include long term investments held to generate revenue returns to be used in pursuit of its stated purposes; or
- (c) Whether the entity is accumulating funds with the intent to make a significant distribution to another entity with similar objectives.

**Commitments**

A199. Commitments are legal obligations to make payments in the future. Although commitments (operating or capital) are not yet recorded as liabilities, reporting them is essential for users of reports to gain a proper understanding of the entity's future viability.

A200. An entity shall report in the notes to the performance report the timing and estimated amount of any significant commitments (both operating and capital). Types of commitments which may need to be reported include:

- (a) Commitments to lease or rent assets;
- (b) Commitments to purchase property, plant and equipment; and
- (c) Commitments to provide loans or grants.

**Contingent Liabilities**

A201. A contingent liability is a possible obligation that arises from past events that is contingent (dependent) on some future event. For example, a court case not yet settled, or a guarantee issued.

A202. For each class of contingent liability at the balance date an entity shall disclose in the notes to the performance report:

- (a) A brief description of the nature of the contingent liability;
- (b) A best estimate of the amount of the contingent liability (where this can be estimated);
- (c) An indication of the uncertainties relating to the amount or timing of any outflow of resources; and
- (d) The possibility of any reimbursement.

A203. For each guarantee or class of guarantee, an entity shall disclose in the notes to the performance report:

- (a) The nature of the guarantee;
- (b) The maximum amount of any guarantees provided to others; and
- (c) The likelihood of the entity being required to make payment under the guarantee.

**Related Party Transactions**

*Explanation*

A204. A related party transaction is a transfer of money or other resource between the reporting entity and a person or other entity that is closely associated with the reporting entity that has the ability to influence the reporting entity. For public sector entities related party transactions comprise significant transactions that are different from those conducted under normal terms and conditions (including the provision of free goods or services).

A205. Related parties comprise:

- (a) People that have significant influence over the entity (such as members of the governing body, persons in key management roles, or others that are involved in the strategic management of the entity – whether employed or volunteer), and close members of their families; and
- (b) Other entities that have significant influence over the entity.

A206. Related party relationships exist throughout the public sector. Disclosure of related party relationships and related party transactions and the relationship underlying those transactions is necessary for accountability purposes, and to enable users to better understand the entity's performance report. This is because:

- (a) Related party relationships can influence the way in which an entity operates with other entities;
- (b) Related party relationships might expose an entity to risks, or provide opportunities that would not have existed in the absence of that relationship; and
- (c) Related parties may enter into transactions that unrelated parties would not enter into, or may agree to transactions on terms and conditions that differ from those that would normally be available to unrelated parties.

A207. Examples of transactions with a related party that would meet these criteria and therefore would be disclosed are:

- (a) The sale of a significant resource (such as a used vehicle) to the chairperson of the governing body at less than market rates;
- (b) The provision of preferential access to services provided by the entity to the dependent of a person in a key management role; and
- (c) The provision of finance (including loans, grants and guarantees), for example, a low interest loan, to a related party.

*Requirements*

A208. An entity shall disclose in the notes to the performance report, transactions with a related party that have occurred during the financial year if the transaction is significant to the entity (individually or in aggregate with similar transactions) and is on terms and conditions that are likely to be different from the terms and conditions of transactions in similar circumstances between parties that are not related.

A209. For each disclosed transaction the following shall be reported:

- (a) A description of the related party relationship;
- (b) A description and amount of any revenue or expense (and the value of free goods or services provided) related to the transaction during the financial year; and
- (c) Any amounts due from or to related parties at balance date.

**Events After the Balance Date**

A210. Where events after balance date occur (see paragraphs A34–A36), and those events have a significant impact on the information included in the performance report, the entity shall report in the notes to the performance report the following:

- (a) The nature of the event; and
- (b) An estimate of its financial effect, or a statement that such an estimate cannot be made; and
- (c) The effect, if any, on the entity's ability to continue operating.

A211. An entity is not required to provide comparative information for events occurring after the balance date. That is, an entity is not required to repeat disclosure of events occurring after the previous balance date.

***Ability to Continue Operating***

A212. Where the entity plans to stop operating within 12 months from balance date (see paragraph A178), or it is likely that the entity will be unable to continue operating, the entity shall include in the notes to the performance report the following:

- (a) A statement that the entity intends to stop operating or that it is unlikely the entity will be able to continue operating;
- (b) The reason why the entity intends to stop operating or why it may not be able to continue operating; and
- (c) The estimated effect of the entity's circumstances on the amounts of the entity's assets and liabilities.

A213. The impact of such a change will depend upon the particular circumstances of the entity. For example, the impact on the recorded amounts of assets will depend upon whether operations are to be transferred to another entity, sold, or liquidated. Judgement is required in determining whether a change in the carrying amount of assets and liabilities is required. It is also necessary to consider whether the change in circumstances leads to additional liabilities or triggers clauses in debt contracts which will lead to the reclassification of those debts as current liabilities.

***Correction of Errors***

A214. When an entity corrects a significant prior period error (see paragraph A29), it shall report in the notes to the performance report:

- (a) A description of the error and how it was corrected; and
- (b) The line items and amounts that have been corrected.

***Additional Information***

A215. The notes to the performance report shall include any additional information that the entity considers necessary for users to understand the overall financial performance and position of the entity.

***Optional Information***

A216. An entity may include in the notes to the performance report:

- (a) Breakdowns of the minimum categories, or the disaggregated categories or additional categories reported in the statement of service performance, statement of financial performance, statement of financial position or statement of cash flows;
- (b) Additional information about donations, fundraising and other similar revenue including a list of donors; and
- (c) Other information that the entity considers will be helpful to users in understanding the performance of the entity.



## Section 10: Illustrative Examples

The following are examples of the accounting treatment required in the performance report.

### 1. Revenue Earned

#### **Scenario 1**

A Rural Education Activity Programme (REAP – the reporting entity) receives funding from the government on a “use or return” basis at the beginning of each quarter to provide education services during that quarter.

*Treatment:* The reporting entity records:

- (a) The funding received as a liability in the statement of financial position (as part of creditors and accrued expenses or separately as a disaggregated category “revenue in advance”); and
- (b) Revenue in the statement of financial performance (revenue from providing goods or services) as the education services are delivered (i.e. as the quarter year progresses), and reduces the liability for the funding received in advance by the same amount at the same time.

#### **Scenario 2**

A fish and game council (the reporting entity) receives money from the issuing of fishing and hunting licences. The licences give the users the right to fish or hunt for a designated period.

*Treatment:* The reporting entity records:

- (a) The license money received as a liability in the statement of financial position (as part of creditors and accrued expenses or separately as a disaggregated category “revenue in advance”); and
- (b) Revenue evenly in the statement of financial performance (revenue from providing goods or services) as the period covered by the licence progresses; and reduces the liability for the revenue received in advance by the same amount at the same time.

The fees are recorded as revenue in advance because the licence is granted for a designated period of time in the future (i.e., the reporting entity earns the revenue during the period over which it has granted the right to fish or hunt).

#### **Scenario 3**

A registration board (the reporting entity) receives fees for issuing registration certificates. The registrations give the users the right to practice in their designated profession. The reporting entity does not provide users with any further services during the year in connection with the registration fee.

*Treatment:* The reporting entity records the registration fees as revenue in the statement of financial performance (revenue from providing goods or services) when it is receivable. The fees are not treated as revenue in advance because the registration is a right to practice and that right is granted at the point the certificate is issued. The registration does not provide any further service during the year.

### 2. Grants with and Without Expectations

#### **Scenario 1 – Grant received with no documented expectations over use**

A school (the reporting entity) receives a grant from a local philanthropic trust to support its activities. The grantor has not communicated any expectations to the reporting entity as to how the grant should be used.

*Treatment:* The reporting entity records the grant as revenue in the statement of financial performance (as donations, fundraising and other similar revenue).

*Optional Information:* The reporting entity may include information about this grant provider in any list of grant providers and their contributions included in the notes to the performance report (see paragraph A63).

**Scenario 2 – Grant for the purchase of assets**

A school (the reporting entity) receives a grant from a local philanthropic trust to support its activities. The grantor specifies in writing that the school must use the grant to purchase 10 computers for the school library. The school has only purchased five computers as at balance date. *Treatment:* As there is a documented expectation attached to the grant:

Financial Year 1

- (a) Upon receipt of the grant the reporting entity records it as deferred revenue in the statement of financial position; and
- (b) When the reporting entity purchases the computers it records:
  - (i) Half of the amount of the grant as grant revenue from non-government organisations in the statement of financial performance, and reduces the deferred revenue balance by the same amount at the same time; and
  - (ii) The purchased computers (at the total cost of purchase) as assets in the statement of financial position (as property, plant and equipment).

Financial Year 2

The school spends the remaining half of the amount of the grant on additional computers for the school library. The entity records:

- (a) The remaining half of the amount of the grant as grant revenue from non-government organisations in the statement of financial performance; and reduces the deferred revenue balance to zero; and
- (b) The purchased computers (at the total cost of purchase) as assets in the statement of financial position (as property, plant and equipment)

*Optional Information:* The reporting entity may include in the notes to the performance report a list of grant providers, together with a summary of their contributions (see paragraph A63).

**Scenario 3 – Bequest received to fund the construction of an asset**

A school (the reporting entity) receives a bequest for the purposes of building a new sports hall. This expectation has been documented and agreed between the reporting entity and a representative of the donor's deceased estate.

*Treatment:* There is a documented expectation over the use of the bequest, which relates to the construction of an asset. Therefore, the reporting entity:

- (a) Records the grant as deferred revenue upon receipt of the funds;
- (b) Records the bequest in the statement of financial performance (as revenue from donations, koha, bequests, and other fundraising revenue from the public or non-government organisations) on a stage of completion basis (i.e. recognise a percentage of the bequest as revenue, based on the percentage of total expected expenditure incurred to date), with a corresponding reduction in the deferred revenue balance; and
- (c) Provides information in the notes to the performance report outlining the total amount of the bequest, the amount of the bequest unused, the fact that the bequest is to be used to fund the construction of the new sports hall, and when the reporting entity expects to fulfil the resource provider's expectations in full (see paragraph A190.1).

**3. Donated Goods or Services**

An Administering Body (the reporting entity) has its performance report prepared free of charge by a chartered accountant who is not associated with the Administering Body. The value of the free services is significant to the Administering Body.

*Treatment:* The reporting entity does not record the donated services (see paragraph A70). However, the donated service is disclosed in the notes to the performance report (see paragraph A191).

#### **4. Liabilities and Contingent Liabilities**

At its annual student concert, a school (the reporting entity) made use of material subject to copyright. Legal proceedings are started seeking damages from the reporting entity for breach of copyright, but the school disputes liability. Up to the date of finalising the performance report for the year, the reporting entity's lawyers advise that it is probable that the entity will not be found liable. However, when the reporting entity prepares its performance report for the following year, its lawyers advise that, owing to developments in the case, it is probable that the entity will be found liable.

*Treatment:* In the first year, the reporting entity does not record a liability in the statement of financial position because the legal advice is that the entity is not likely to be found liable. The matter is reported as a contingent liability in the notes to the performance report.

In the second year, the reporting entity records a liability in the statement of financial position (as a creditor provision) if the amount of damages can be reliably estimated; and records an equivalent amount as an expense in the statement of financial performance. If the amount of damages cannot be reliably estimated, no liability or expense is recorded and the facts are reported in the notes to the performance report.

#### **5. Related Parties**

##### ***Scenario 1***

A trust (the reporting entity) has total operating payments of \$20,000. These payments are all made to the spouse of the trust's chairperson for office administration duties of the entity. The payments are made at a higher hourly rate than the office administrator receives.

##### ***Scenario 2***

The reporting entity has total operating payments of \$20,000. A few of these payments (\$1,000) are made to the spouse of the chairperson for relieving the office administrator. The payments are made at a higher hourly rate than the office administrator receives.

*Treatment:* In both of the scenarios the spouse of the chairperson is a related party of the reporting entity (see paragraph A205).

In scenario 1 the transactions with the related party are significant and are not made under normal terms and conditions (see paragraph A204) and therefore the entity reports in the notes to the performance report the information set out in paragraph A209(a)–(c).

In scenario 2 the transactions with the related party are not significant and therefore the entity is not required to report those transactions in the notes to the performance report (but it may do so if it wishes).

## Section 11: Glossary

*This Glossary contains all terms defined in this Standard.*

<b>Accounting policies</b>	The specific policies and practices used by the entity when preparing the performance report.
<b>Accumulated funds</b>	Represents the net assets available to the entity to fulfil its objectives in the future. It also represents the difference between the assets and liabilities of the entity. In the for-profit sector the equivalent term is equity.
<b>Assets</b>	Resources controlled by the entity as a result of past events (which would usually be transactions), from which future economic benefits are expected to flow to the entity (such as investments producing interest revenue).
<b>Associate</b>	An entity over which the investor has significant influence.
<b>Bad debt</b>	Money owing to the entity (accounts receivable) that is deemed uncollectible and written off as an expense. This may be due to the length of time it has been owing, or information known about the customer's ability to pay (for example, the customer has gone into liquidation).
<b>Balance date</b>	The date to which the performance report is prepared. It is usually an end of month date, for example, 30 June 20XX.
<b>Carrying amount</b>	The cost of the asset less accumulated depreciation and accumulated impairment losses (if any).
<b>Cash</b>	Cash on hand and bank account balances (e.g., cheque and savings accounts)
<b>Commitments</b>	Contracts or similar arrangements entered into by the entity to pay money in the future.
<b>Consolidated performance report</b>	The performance report of an economic entity <sup>11</sup> presented as that of a single entity.
<b>Contingent liability</b>	A possible obligation to pay money that will be confirmed by the occurrence or non-occurrence of an uncertain future event or an obligation that has arisen but is not recorded because (i) it is not probable that the entity will have to settle the obligation; or (ii) the amount of the obligation cannot be estimated reliably (that is, the entity is too uncertain of the amount of the obligation).
<b>Control</b>	An entity controls another entity when the entity is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature or amount of those benefits through its power over the other entity.
<b>Controlled entity</b>	An entity that is controlled by another entity.
<b>Controlling entity</b>	An entity that controls one or more entities.
<b>Deficit</b>	The amount in the statement of financial performance when expenses exceed revenue for the year. In the for-profit sector the equivalent term is loss.
<b>Defined benefit plan</b>	A retirement scheme where the amount paid to members on retirement is principally determined by years of membership in the scheme and/or salary level rather than the level of contributions by the member.
<b>Depreciation</b>	The allocation of the cost of the asset over its useful life using a structured method such as straight line or diminishing value.
<b>Economic entity</b>	A controlling entity and its controlled entities.

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<sup>11</sup> Note the term group is sometimes used to refer to the economic entity.

<b>Entity</b>	An organisation which may take any of a number of forms, including but not limited to, a public entity, company, incorporated association, unincorporated association or trust. Dependent on organisational structure, this may be a legal entity, a unit within a wider organisation, or it may be comprised of one or more units.
<b>Expenses</b>	All outflows from the entity during the year other than capital outflows. Capital outflows comprise distributions to owners (in their capacity as owners), outflows to settle liabilities that were recorded in a previous year, and outflows to purchase assets. Expenses include cash paid out during the year, and any liability to pay out cash in the future related to an event (usually a transaction) in the current year or a prior year. These outflows may be from normal operating activities such as the costs of fundraising, or from transactions such as grants made by the entity. Expenses also include reductions in property, plant and equipment called depreciation expense and impairment expense.
<b>Fair value</b>	The amount for an arm's length transaction if it takes place between two willing parties in the market. Fair value applies to both assets and liabilities.
<b>Financial year</b>	A twelve-month period ending on the entity's balance date.
<b>Impairment</b>	When an asset is worth less in the market than the carrying amount in the statement of financial position, the difference is an impairment (and is recorded as an expense). This may occur if the asset becomes obsolete due to technological change, or the asset is damaged. Impairment tests apply to both tangible and intangible assets.
<b>Intangible assets</b>	Assets without a physical presence (for example, trademarks, patents).
<b>Inventory</b>	Also referred to as stock, these are current assets held for sale in the ordinary course of business. For example, a stock of licensing or registration forms held for distribution.
<b>Joint arrangement</b>	An arrangement of which two or more parties have joint control.
<b>Joint control</b>	The agreed sharing of control of an arrangement by way of binding arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.
<b>Joint venture</b>	A joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.
<b>Liabilities</b>	Present obligations arising from past events, the settlement of which is expected to result in an outflow of resources from the entity. An example is the purchase of supplies prior to balance date, with the payment due in the next financial year.
<b>Measurement</b>	Quantification of activities in terms of money, being New Zealand dollars.
<b>Notes to the performance report</b>	Notes that provide further information on items in the various financial statements, either by a further breakdown of figures or a narrative description.
<b>Performance report</b>	A set of statements which collectively tell the story of the entity over the financial year. This includes the entity information, statement of service performance, statement of financial performance, statement of financial position, statement of cash flows, statement of accounting policies, and notes to the performance report prepared in accordance with this Standard.

<b>Public accountability</b>	<p>While public sector PBEs are generally considered to be publicly accountable, “public accountability” has a specific meaning in the accounting standards issued by the XRB.</p> <p>Entities are considered to have public accountability for financial reporting purposes when they have issued debt or equity instruments through a public offering or their main activity is holding cash or other assets on behalf of others (e.g. a superannuation scheme).</p> <p>The full definition of “Public Accountability” is included in <a href="#">XRB A1</a></p>
<b>Public benefit entity (PBE)</b>	<p>Reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders.</p>
<b>Public sector public benefit entity (PS PBE)</b>	<p>A public benefit entity that is a public entity as defined in the Public Audit Act 2001, and all Offices of Parliament.</p>
<b>Recording</b>	<p>Including a revenue, expense, asset or liability item in the statements of the performance report (also referred to as recognition).</p>
<b>Recognition event</b>	<p>An event that brings about the legal obligation for the entity to:</p> <ul style="list-style-type: none"> <li>(a) Settle a transaction with another party at a future date (payables), or by the payment of cash; or</li> <li>(b) Have a legal obligation settled upon the entity by another party (receivables), or by the receipt of cash.</li> </ul> <p>This is what distinguishes accrual accounting from cash accounting (for which the only recognition event is the receipt or payment of cash).</p>
<b>Related parties</b>	<p>People or entities that have significant influence over the reporting entity, such as members of the governing body, persons in key management roles, or others that are involved in the strategic management of the entity (whether employed or volunteer) and close members of their families.</p>
<b>Reporting entity</b>	<p>An entity preparing a performance report in accordance with this Standard. In the New Zealand reporting environment, it is a public entity that is required by law to apply standards issued by the External Reporting Board (XRB) or the New Zealand Accounting Standards Board of the XRB. For the purposes of applying this Standard the entity is a public sector entity.</p>
<b>Revenue</b>	<p>All inflows into the entity during the year other than capital inflows. Revenue includes the cash received during the year, and the right to receive a payment in the future related to an event (usually a transaction) in the current year. These inflows may be from normal operating activities such as the sale of a good or service. Capital inflows comprise contributions from owners (in their capacity as owners), inflows to settle a receivable that was recorded in the previous year, inflows from the sale of assets, and inflows from borrowings.</p>
<b>Significant</b>	<p>An item is significant if recording and/or disclosure of the particular item, whether financial or non-financial, could influence a user’s understanding of the entity’s overall performance. For the purposes of this Standard it has the same meaning as material.</p>
<b>Significant influence</b>	<p>The power to participate in the financial and operating policy decisions of another entity but is not control or joint control of those policies.</p>
<b>Statement of cash flows</b>	<p>A statement that shows the movements between the cash balances at the beginning and the end of the year. It is divided into two categories: operating, and investing and financing.</p>

<b>Statement of financial performance</b>	A statement that shows an entity’s revenue and expenses, to establish its surplus or deficit for the financial year. This statement is sometimes called the income statement or operating statement.
<b>Statement of financial position</b>	A statement that reports a picture of the entity’s position by listing what it owns and what it owes at the balance date. This statement is sometimes called the balance sheet.
<b>Statement of service performance</b>	A statement that provides information to help users understand what the entity did during the financial year to achieve its objectives. It is particularly useful in the public sector when the focus is on achieving planned objectives, rather than making a profit. The information in this statement is predominantly non-financial, but still involves measurement.
<b>Surplus</b>	The amount in the statement of financial performance when revenue exceeds expenses for the year. In the for-profit sector the equivalent term is profit.
<b>Total expenses</b>	<p>For the purpose of applying the Tier 3 size criteria, total expenses means total expenses (including losses and grant expenses) recognised in accordance with Tier 3 PBE Accounting Requirements in the Statement of Financial Performance.</p> <p>Where revenue and expense are offset as required or permitted, any net expense is included in total expenses.</p> <p>Where the entity reporting is a group, total expenses is that of the group comprising the controlling entity and all its controlled entities.</p>

## Appendix B: Transitional Arrangements

*This Appendix contains the requirements for entities to transition to Reporting Requirements for Tier 3 Public Sector Entities. It is an integral part of the Standard.*

### Objective

- B1. This part of the Standard<sup>12</sup> is designed to assist an entity in preparing its first performance report under this Standard. This Standard recognises that entities come from divergent reporting backgrounds and prescribes different transitional rules to meet different circumstances.

### Transitional Groups

- B2. There are likely to be four types of entities applying this standard:

Group 1: New entities – those who have started up in the current financial year.

Group 2: Entities previously applying Tier 4 PBE Accounting Requirements – those who have complied with Tier 4 PBE Accounting Requirements in the previous financial year.

Group 3: Entities previously applying Tier 2 PBE Accounting Requirements – those who have complied with Tier 2 PBE Accounting Requirements in the previous financial year.

Group 4: Other Entities – entities that have been operating prior to the current financial year, and in the previous financial year followed other accounting standards (for example, NZ IFRS PBE or Old GAAP), or have not followed any accounting standard issued by the External Reporting Board (XRB) or the New Zealand Accounting Standards Board of the XRB.

### General Provisions

- B3. These general provisions apply to all entities in Groups 1 to 4 applying this Standard unless there is an override in the Special Provisions in paragraphs B7 to B10.
- B4. An entity that is reporting in accordance with this Standard for the first time, shall apply this Standard from the beginning of the earliest comparative period presented. This is the financial year prior to that for which the performance report is currently being prepared. For example, if the performance report is being prepared in accordance with these general provisions for the year ended 30 June 2015, the beginning of the earliest comparative period would be 1 July 2013.
- B5. All assets and liabilities shall be recorded at the beginning of the earliest comparative period presented.
- (a) For payables and receivables, amounts shall be recorded at the amount owing or owed at the beginning of the earliest comparative period.
  - (b) For property, plant and equipment, an entity shall record significant items at their readily obtainable current amounts (such as rateable value or government valuation). Where amounts are not readily obtainable the entity is not required to record the assets but shall disclose this fact in the notes to the performance report. An entity is not required to record insignificant items of property, plant and equipment.
  - (c) For other assets and liabilities an entity shall make its best estimate of the value at the beginning of the earliest comparative period presented and record the assets and liabilities at that amount. In this case accumulated funds is the number needed to make the statement of financial position balance on transition.
- B6. Separate disclosure of significant restatements is encouraged, but is not required.

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<sup>12</sup> This Appendix is part of the Standard and so the term “Standard” is used throughout. “Standard” refers to the Reporting Requirements for Tier 3 Public Sector Entities, abbreviated as Tier 3 (PS) Standard.



**Special Provisions**

***Group 1: New Entities***

B7. No comparative figures are required for this Group. This overrides any requirement elsewhere in this Standard for comparatives to be reported. New entities shall disclose their date of commencement in the notes to the performance report.

***Group 2: Entities Previously Applying Tier 4 Accounting Requirements***

B8. Entities in this Group shall follow one of the following two options:

- (a) Follow this Standard from the start of the current period. In this case comparative information is not required, and this overrides any requirement elsewhere in this Standard for comparatives to be reported. However, the entity shall attach its previous financial statements and a list of its previous accounting policies; or
- (b) Apply the general provisions of this Standard.

***Group 3: Entities Previously Applying Tier 2 Accounting Requirements***

B9. Entities in this Group shall follow one of the following two options:

- (a) Provide comparative data based on the applicable information reported in their financial statements for the previous year prepared in accordance with the Tier 2 PBE Accounting Requirements; or
- (b) Apply the general provisions of this Standard.

***Group 4: Other Entities***

B10. Entities in this Group shall follow one of the following two options:

- (a) Follow this Standard from the start of the current period. In this case comparative information is not required, and this overrides any requirement elsewhere in this Standard for comparatives to be reported. However, the entity shall attach its previous financial statements and a list of its previous accounting policies; or
- (b) Apply the general provisions of this Standard.

## Appendix C: Application of PBE Standards

*This Appendix contains the requirements for entities when applying a PBE Standard. It is an integral part of the Standard.*

### Interests in Other Entities

- C1. To determine whether an entity has an interest in a controlled entity, an associate or a joint arrangement the entity must refer to the guidance within the following Tier 2 PBE Standards:
  - (a) PBE IPSAS 35 *Consolidated Financial Statements*
  - (b) PBE IPSAS 36 *Investments in Associates and Joint Ventures*
  - (c) PBE IPSAS 37 *Joint Arrangements*
- C2. If an entity controls another entity, it shall prepare a consolidated performance report which combines the assets, liabilities, net assets/equity, revenue and expenses of the controlling entity with those of the controlled entity in accordance with the requirements in PBE IPSAS 35 and PBE IPSAS 38 *Disclosure of Interests in Other Entities*. An entity that controls another entity but which is not required to prepare a consolidated performance report because it qualifies for the exemption in paragraph 5 of PBE IPSAS 35 not to present consolidated financial statements shall prepare a performance report in accordance with PBE IPSAS 34 *Separate Financial Statements*.
- C3. If an entity has an interest in an associate or a joint venture it shall prepare a performance report in which it accounts for that interest in accordance with the requirements in PBE IPSAS 36 and PBE IPSAS 38. An entity that qualifies for the exemption in paragraph 23 of PBE IPSAS 36 not to apply the equity method to its investment in an associate or a joint venture shall prepare a performance report in accordance with PBE IPSAS 34.
- C4. If an entity has an interest in a joint arrangement, it shall prepare a performance report in which it accounts for that interest in accordance with the requirements in PBE IPSAS 37 and PBE IPSAS 38.
- C5. When applying the requirements in PBE IPSAS 34, PBE IPSAS 35, PBE IPSAS 36 or PBE IPSAS 38 an entity is not required to comply with the disclosure requirements in those standards denoted with an asterisk (\*). Where an entity elects to apply a disclosure concession it shall comply with any RDR paragraphs associated with that concession.

### Other Applications of PBE Standards

- C6. An entity that is eligible to apply this Standard, and elects to do so, may elect to apply the requirements of a PBE Standard that is part of the Tier 2 PBE Standards to a specific type of transaction, as long as it applies that option to all transactions of that type. For example, an entity may decide to opt up to PBE IPSAS 27 *Agriculture* so that it can measure its biological assets and agricultural produce at fair value less costs to sell, or an entity may decide to opt up to PBE IPSAS 25 *Employee Benefits* to account for long-term employee benefits.
- C7. If, for a specific type of transaction, an entity elects to apply the requirements of a Tier 2 PBE Standard instead of applying the requirements in this Standard, the entity:
  - (a) Shall disclose this in the statement of accounting policies; and
  - (b) Cannot choose to return to applying this Standard for that type of transaction unless the entity complies with the requirements of this Standard for changes in accounting policies (see paragraphs A183– A184).
- C8. If, for a specific type of transaction, an entity elects to apply the requirements of a Tier 2 PBE Standard instead of applying the requirements in this Standard, and the PBE Standard requires that the effect of that transaction shall be recognised in other comprehensive revenue and expense, the entity shall instead:
  - (a) Recognise the effect of that transaction directly in accumulated funds; and
  - (b) Present the cumulative effect of similar transactions as a separate reserve within Accumulated Funds.

**Basis for Conclusions**

BC1. This Basis for Conclusions summarises the NZASB's considerations in developing the PBE Simple Format Reporting – Accrual (Public Sector) Standard (PBE SFR-A (PS)).

**Background**

BC2. The Accounting Standards Framework includes four reporting tiers for public sector PBEs. PBE SFR-A (PS) contains requirements for the third tier and may be applied by entities that do not have “public accountability” (as defined in standard XRB A1 (FP Entities + PS PBEs Update)) and that have annual expenses less than, or equal, to \$2 million.

**Objective**

BC3. PBE SFR-A (PS) is intended to improve the quality and consistency of financial reporting by entities eligible to apply the Standard.

BC4. PBE SFR-A (PS) is intended to provide a simplified version of the Tier 1 and Tier 2 PBE Accounting Standards, rather than a standard based on a different conceptual framework. As a result, the NZASB approached the development of the Standard with a view that, in principle, the same recognition and measurement requirements should apply to Tier 3 public sector financial reporting as are applied by public sector entities applying the Tier 1 and Tier 2 PBE Accounting Standards. The NZASB also considered the extent to which the cost of applying the recognition and measurement requirements in the PBE Accounting Standards outweighed the benefits to users of the resulting financial statements.

**Approach**

BC5. In preparing the Standard, the NZASB was cognisant of the fact that some Tier 3 public sector preparers, as well as users of their performance report, may have limited access to professional accounting expertise. The NZASB was of the view that the Standard should be able to be applied by persons who are managing the finances of an entity that is eligible to apply PBE SFR-A (PS).

BC6. The NZASB decided that PBE SFR-A (PS) should be a single, short, and relatively simple standard written in less technical language than is normally found in accounting standards. As a result, the Standard:

- (a) Addresses only those transactions that are commonly undertaken by entities eligible to apply PBE SFR-A (PS);
- (b) Contains simplified measurement of transactions where, taking the public sector as a whole, the costs of applying the requirements of Tier 1 and Tier 2 standards are likely to outweigh the benefits;
- (c) Excludes the options contained in Tier 1 and Tier 2 standards such as the option to measure property, plant and equipment using the revaluation model; and
- (d) Contains simplified presentation and disclosure requirements.

**Omitted Transactions**

BC7. The NZASB relied heavily on information in public sector financial statements prepared under previous requirements to assist it in identifying transactions which were undertaken very infrequently by public sector entities and therefore did not need to be addressed in this Standard. These transactions include:

- (c) Financial instruments other than payables, receivables and term deposits; and
- (d) Complex transactions such as service concession arrangements and insurance contracts.

**Simplifications**

BC8. The major simplifications in this Standard compared to the Tier 1 and Tier 2 PBE Accounting Standards are as follows:

- (a) *Whether grants or donations are recorded:* Goods or services (and other non-cash assets) received in kind are not required to be recorded;
- (b) *Treatment of donation/grant and government funding revenue:* Donations, grants and government funding are recorded as revenue when received unless there is a “use or return” condition attached to the revenue. In this Standard the key element that drives the recognition of a liability relating to the donation/grant or government funding received is the “use or return” condition.

BC9. The NZASB decided that the simplification in BC8(a) should not apply to significant donated assets, such as property. Any such donated assets are required to be recognised at a readily available current value (rather than requiring measurement at fair value as defined in the Tier 1 and Tier 2 PBE Accounting Standards). This is to ensure that the statement of financial position includes all significant assets regardless of whether they are purchased or donated.

BC10. The simplification set out in BC8(a) has the consequence that information about donated goods, services and assets (other than significant donated assets), including services provided by volunteers, will not be recorded in the performance report. To compensate for this, PBE SFR-A (PS) requires disclosure of significant donations in kind in the notes to the performance report.

BC11. In relation to the simplification set out in BC8(b) the NZASB chose not to fully apply to grants and donations and government funding the principles in PBE IPSAS 23 *Revenue from Non-Exchange Transactions*. The NZASB considered the requirements of PBE IPSAS 23 to be too costly and complex for entities likely to apply PBE SFR-A (PS) without a corresponding increase in the usefulness of the information that would be provided to users. The NZASB decided to simplify the principles to require a “use or return” condition before a liability is recorded.

BC12. The NZASB made a number of simplifications in order to reduce the amount of professional judgement required and to make the Standard simpler to apply. Those simplifications include the following:

- (a) Financial instruments are measured at amounts receivable or payable, with interest revenue or expense recognised in accordance with the terms of the contract, rather than by applying the effective interest method;
- (b) Any foreign currency transactions are to be translated using the spot rate at the transaction date or at the balance sheet date for monetary assets and liabilities;
- (c) Basing the statement of cash flows on ‘cash’ rather than cash equivalents; and
- (d) Allowing the direct method of preparing the statement of cash flows, on the assumption that most entities applying this Standard will use cash books as their primary source of information.

**Option to Apply the Requirements in Tier 2 PBE Accounting Standards**

BC13. The NZASB is aware that some entities may prefer not to apply certain of these simplifications or may wish to use an option that is available in the Tier 1 and Tier 2 PBE Accounting Standards. Accordingly, the NZASB included an option in this Standard that permits entities to elect to use the recognition and measurement requirements of Tier 2 PBE Accounting Standards for a specific type of transaction as long as the entity applies that same requirement to all transactions of that type. Entities are required to disclose the use of this option, where applied.

**Financial Information**

BC14. This Standard establishes minimum aggregated categories for the reporting of financial information. It also allows an entity to add additional categories applicable to that entity and to describe all categories using terminology appropriate to that entity. In doing so, the NZASB was seeking to achieve a balance between comparability and understandability on the one hand, and flexibility for entities to reflect their own circumstances on the other.

**Non-Financial Information**

BC15. To enhance financial reporting with non-financial information that explains the activities of the entity, this Standard requires:

- (a) Disclosure of information about the entity's structure and objectives; and
- (b) The preparation of a statement of service performance for entities required by law to produce such a statement (by whatever name called).

BC16. The NZASB is of the view that the reporting of this non-financial information is necessary for users to gain a full understanding of the entity's performance. It therefore encourages public entities not required by law to produce a statement of service performance to do so optionally.

**Group Accounting**

BC17. At the stage that PBE SFR-A (PS) was issued in November 2013, the NZASB indicated its intention to issue a separate exposure draft on accounting for groups (the entity together with any entities that it controls).

BC17.1 The NZASB subsequently considered this issue and issued ED NZASB 2014-2 *Interests in Other Entities* (Amendments to PBE SFR-A (PS)) in April 2014 (ED NZASB 2014-2). The NZASB noted that PBE SFR-A (PS) applied both to single entities and groups and required that an entity's performance report incorporate all the activities of the entity. However, it was silent as to how an entity applying the standard should account for significant interests in other entities, such as interests in controlled entities, associates and joint ventures.

BC17.2 The NZASB considered how to clarify this issue for Tier 3 public sector entities. The NZASB considered and rejected a disclosure only approach on the grounds that this would not result in an entity reporting the reality of its structures and arrangements. The NZASB was of the view that if a Tier 3 public sector entity has interests in other entities, those interests need to be appropriately accounted for in the performance report. The NZASB considered that the Tier 2 PBE Accounting Standards contain appropriate accounting requirements for accounting for significant interests in other entities and that those requirements should also apply to any Tier 3 public sector entity with such interests in other entities.

BC17.3 In considering how best to incorporate these requirements in PBE SFR-A (PS) the NZASB noted that:

- (a) Relatively few Tier 3 public sector entities would be expected to have interests in controlled entities, associates or joint ventures;
- (b) Most Tier 3 public sector entities with interests in controlled entities, associates or joint ventures would already be accounting for those interests in accordance with similar requirements to the Tier 2 PBE Accounting Standards; and
- (c) Development of simplified group accounting requirements would be difficult to draft and would significantly increase the size of the Tier 3 public sector standard, thereby detracting from the usefulness of the standard for most public sector entities.

BC17.4 The NZASB agreed to require Tier 3 public sector entities to account for significant interests in other entities in accordance with the Tier 2 PBE Accounting Standards, and to give effect to this requirement by referring to the Tier 2 PBE Accounting Standards in the Tier 3 public sector standard. When applying the requirements of the Tier 2 PBE Accounting Standards an entity may use any RDR concessions available to Tier 2 entities in those standards.

**Related Parties**

BC18. The definition of related party in existing accounting practice includes both people (and close members of their families) and other entities that have significant influence over the entity. The NZASB considered whether to simplify that definition of related party for this Tier. After considering the importance of related party disclosures for accountability purposes, and the risks and opportunities inherent in these relationships, the NZASB decided to retain in the definition of related party both related people (and close members of their families) and other entities that have significant influence over the entity.

BC19. However, disclosure of related party transactions is only required if the transaction is significant to the entity (individually or in aggregate with similar transactions); and the transaction is on terms and conditions that are likely to be different from the terms and conditions of transactions in similar circumstances between parties that are not related.

### Transition

BC20. The NZASB was aware that a range of pre-existing accounting policies were applied by entities that are now eligible for, and elect to apply, PBE SFR-A (PS). The NZASB was also concerned that some of those entities might have difficulty in restating their comparative information and measuring some existing purchased assets as required by this Standard. Rather than delay the application of the Standard, PBE SFR-A (PS) permits entities to:

- (a) Apply PBE SFR-A (PS) in the first year without restating the comparative information. Entities taking this option are required to attach their prior period financial statements (including an explanation of the accounting policies applied) rather than having to restate the comparative financial information; and
- (b) Only record pre-existing assets that are significant and that have values that are readily obtainable. Assets that are not significant or for which values are not readily obtainable need only be disclosed in the notes to the performance report. The NZASB concluded that disclosing reliable information about purchased pre-existing assets was sufficiently useful to users of financial statements rather than imposing the costs on entities to attempt to identify, recognise and measure the assets in accordance with the PBE SFR-A (PS).

### Post-implementation review

BC21. The NZASB completed a post-implementation review of the Tier 3 (PS) Standard in 2021 to assess whether the Standard was working as intended and achieving its original objectives. Over 100 submissions were received in response to the post-implementation review, which have been considered as the basis for developing proposed amendments to the Standard.

BC22. Many respondents to the post-implementation review considered that, in general, the Standard was working well. However, there were some key issues raised in the feedback which highlighted areas where the Standard could be improved. In response, the NZASB issued ED NZASB 2022-4 Amendments to Tier 3 (PS) Standard in [Month, Year] which proposed amendments to the following specific areas of the Standard.

### Service Performance Reporting (Section 4)

BC23. The NZASB noted that the statement of service performance requirements in the Tier 3 (PS) Standard were developed before PBE FRS 48 Service Performance Reporting (PBE FRS 48) was developed and issued. The NZASB decided to re-express the requirements for Tier 3 public sector entities so that they were more in line with the requirements in PBE FRS 48. Doing so would address the majority of the issues raised by respondents to the post-implementation review, which centred around the difficulty in understanding what is meant by the terms “outcomes” and “outputs”.

BC24. Therefore, the NZASB decided to remove the language around “outcomes” and “outputs” but retain the requirement for a Tier 3 public sector entity to report on what it is seeking to achieve over the medium to long term (i.e. its ‘objectives’) and the significant activities undertaken during the reporting period to achieve these objectives.

BC25. The NZASB also decided to add requirements and/or guidance on:

- (a) how to select appropriate and meaningful measures and/or descriptions;
- (b) what is meant by a “significant activity”; and
- (c) the need for consistency of service performance reporting from year to year (including possible reasons for changes to what an entity reports and how it is reported).

The additional requirements/guidance is aligned with PBE FRS 48.

**Asset Valuation (Section 6)**

BC26. The Tier 3 (PS) Standard was originally drafted to require all assets to be measured on a cost basis. If a Tier 3 public sector entity wanted to measure any of its assets on a different basis (such as a revalued amount), it was required to opt up to Tier 2 PBE Standards with the exception that an entity may use rateable or government value rather than fair value when revaluing property, plant and equipment assets. Many respondents to the post-implementation review considered that the Standard should include simple requirements for measuring assets such as property, plant and equipment, investment property and financial investments (such as shares, bonds and units in managed funds) on an alternative basis to cost. Other respondents raised practical concerns with the current requirements when opting up to the Tier 2 PBE Standards to revalue assets.

BC27. The NZASB agreed that there is scope to improve and simplify the requirements in the Standard when a Tier 3 public sector entity elects to measure these assets at revalued amounts. Therefore, the NZASB decided to incorporate simplified alternative measurement methods directly in the Tier 3 (PS) Standard.

BC28. The NZASB agreed to allow property, plant and equipment assets to be revalued with the requirements including the following key features.

- (a) Entities would be permitted to use current council rateable value when revaluing.
- (b) To avoid introducing the concept of other comprehensive income to the Tier 3 (PS) Standard, revaluation gains would be recognised directly in accumulated funds except to the extent that they reverse a previously recognised impairment charge.
- (c) Revaluation losses would be recognised as an expense in the statement of financial performance except to the extent that they offset a previously recognised revaluation gain.
- (d) Gains on disposal over the carrying amount would be recognised as revenue in the statement of financial performance.
- (e) Revaluation gains and losses are to be offset against each other within a class of revalued assets but must not be offset against gains and losses from another class of revalued assets.
- (f) Entities are still required to recognise depreciation on revalued assets from the date of their most recent revaluation.
- (g) Revaluation gains included in accumulated funds are not to be recycled through the statement of financial performance.

BC29. The NZASB decided to allow investment property assets to be revalued and, in the interest of simplicity, considered it appropriate that investment property be treated in the same manner as property, plant and equipment for this purpose. It was noted that the original drafting of the Tier 3 (PS) Standard was silent on investment property and so the NZASB also agreed to include a simple definition of investment property in the Standard.

BC30. The NZASB noted that respondents who expressed a desire to revalue their financial investments generally only referred to publicly traded or managed investments. Therefore, the NZASB decided to allow financial investments to be revalued where those investments are publicly traded. Restricting revaluations to only assets of these types was considered to be the most appropriate method to achieve the effect desired by the respondents without introducing the complexity required to allow other types of financial investments to be revalued.

**Categories for Presenting Revenue and Expenses (Section 5)**

BC31. The Tier 3 (PS) Standard requires revenue and expenses to be aggregated and reported within a set of categories in order to improve the understandability, consistency and comparability of performance reports. While feedback on the post-implementation review was generally supportive of maintaining minimum categories in principle, many respondents considered that the minimum categories could be improved by introducing additional disaggregation and clarifying the application of existing categories.

BC32. After considering the views of respondents the NZASB decided to disaggregate the required categories based on a mixture of both the nature and source of the underlying transactions. The increase in the number of minimum categories is expected to assist preparers in identifying the appropriate category for different types of transactions by being more specific and more clearly defined.

BC33. The NZASB also decided to separate the following.

- (a) Revenue and expenses which relate solely to commercial activities from other revenue and expenses. As public sector entities have a primary objective to provide goods or services for community or social benefit the NZASB considered that separating the revenue and expenses incurred in pursuit of this objective from those incurred solely to generate a financial return would provide useful information.
- (b) Revenue from grants or funding that are, in substance, a contract for the delivery of goods or services from general grants or funding (where applicable).
- (c) Revenue from government entities and revenue from non-government entities based on feedback from respondents.
- (d) Employee remuneration from other employee related expenditure based on feedback from respondents.

BC34. Respondents also noted that the extent of disaggregation and relabelling of the minimum categories permitted by the Tier 3 (PS) Standard was unclear, resulting in diversity in practice. As the amount of mandatory disaggregation has increased (where applicable), the NZASB decided to remove the option to provide further disaggregation in the statement of financial performance.

### **Revenue Recognition (Section 5)**

BC35. In the original drafting of the Tier 3 (PS) Standard, donations and grants received with “use or return” conditions were recognised as revenue as the conditions over use were satisfied. A “use or return” condition is one where the entity is required to either use the donation or grant as specified by the resource provider or return the funds. Feedback from many respondents to the post-implementation review highlighted concern about the restrictive nature of the “use or return” revenue recognition approach.

BC36. Respondents noted that “use or return” conditions do not provide for appropriate accounting outcomes in practice and limits their ability to explain how funding received from the public was being spent on advancing the entity’s objectives. It was also noted by respondents that the restrictive nature of this revenue recognition approach was negatively impacting the ability of Tier 3 public sector entities to secure multi-year funding arrangements.

BC37. The NZASB considered the feedback from respondents, various international frameworks, and three key factors (i.e. clarity, meeting user needs and auditability). The NZASB decided to introduce the principle of recognising revenue as or when documented resource provider “expectations” over use are satisfied. The NZASB has not defined the term “expectations” but instead has put conditions in the Standard around what constitutes an expectation for revenue recognition purposes.

- (a) An expectation over use is one which the resource provider has communicated to the reporting entity when the funding is initially transferred.
- (b) The expectation must be both documented and agreed between the resource provider and the entity. An expectation is documented when it has been agreed in writing between the reporting entity and the resource provider (or there is some other form of evidence to demonstrate this agreement). This condition is important from an assurance perspective.
- (c) Only external expectations (i.e. expectations from the resource provider) should be considered for revenue recognition purposes. Internal expectations (i.e. how the entity expects to use the funds) is not a relevant consideration.
- (d) An expectation should be specific enough to allow the reporting entity to reliably demonstrate to the resource provider when the expectation has been satisfied. However, there is no



requirement for the expectation to be enforceable by the resource provider, as the concept of “enforceability” introduces a level of complexity within the Standard that the NZASB does not deem necessary for a Tier 3 entity’s financial reporting.

- BC38. The principle of recognising revenue as (or when) expectations over use are satisfied applies only to significant funds received as a donation, grant or bequest. These revenue streams are the only ones where there may be a resource provider expectation over use. The NZASB considers it to be a rare occurrence when there is a resource provider expectation attached to general fundraising revenue, and so this revenue stream is not within scope of this revenue recognition principle.
- BC39. The NZASB has made it clear in the Standard that the unit of account for the recognition of significant donations, grants and bequests with documented expectations over use, is each separate expectation identified.
- BC40. The timing of revenue recognition is dependent on the nature of the documented expectation over use. Some expectations are naturally satisfied at a point in time (e.g. where the expectation is to purchase an item such as a vehicle), whereas other expectations are satisfied over a period of time (e.g. where the expectation is to use the funding to cover a worker’s salary for one year – as each month’s salary is paid, more of the expectation is satisfied). For the purposes of providing guidance to preparers the NZASB has put common scenarios and the likely patterns of revenue recognition within the Standard but has also made an explicit statement in the Standard that judgement will be required to determine an appropriate approach to the timing of revenue recognition.

#### **Accumulated Funds (Section 6)**

- BC41. Respondents considered that greater disclosure was needed about entities’ plans and policies for applying its accumulated funds towards its stated purposes. In responding to this feedback the NZASB was mindful of the significant diversity in the activities and circumstances of public sector entities and the unintended consequences of requiring disclosures that were too specific in nature.
- BC42. Ultimately, the NZASB agreed to expand the disclosures required in the notes to the performance report in the form of a high-level requirement to disclose information to enable users of an entity’s financial statements to evaluate the entity’s objectives’ policies, and processes for managing its accumulated funds. This specifically includes a brief description of the entity’s plans for applying its accumulated funds toward its stated purposes. Rather than require further specific disclosures it was agreed to provide further guidance on the types of information an entity may wish to disclose towards this.

#### **Opting up (Appendix C)**

- BC43. The Tier 3 (PS) Standard allows a Tier 3 public sector entity to elect to apply the requirements of Tier 2 PBE Standards to specific types of transactions, as long as it applies the requirements to all transactions of that type. A key piece of feedback from the post-implementation review highlighted a lack of understanding about what to do if the relevant Tier 2 PBE Standard requires revaluation movements to be recognised in other comprehensive revenue and expense.
- BC44. In response to this feedback, the NZASB decided to include a requirement in Appendix C of the Standard to recognise the effects of transactions directly in accumulated funds where there is a requirement in Tier 2 PBE Standards to recognise the effects of those same transactions in other comprehensive revenue and expense. The NZASB decided not to introduce an “other comprehensive revenue and expense” category in the statement of financial performance, to avoid adding unnecessary complexity to the Standard.

#### **Other amendments to the Tier 3 (PS) Standard**

- BC45. The NZASB decided to make the following additional amendments to the Standard, in response to feedback on the post-implementation review.
- (a) Add a paragraph in Section 3 of the Standard (Entity Information), which permits a Tier 3 public sector entity to incorporate the required information in Section 3 by cross-reference

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to another document, as long as the document is available to users at the same time as the performance report.

- (b) Align the categories within the statement of cash flows with the categories of revenue and expenditure in the statement of financial performance.
- (c) Include short-term deposits in the definition of cash and define them as deposits “with a maturity of three months or less from the date purchased”. This is in response to feedback on the post-implementation review which noted that the definition of cash in the Standard does not align with Tier 1 and Tier 2 PBE Standards, which can make the consolidation of entities reporting under different tiers more challenging. In the interests of limiting complexity the NZASB decided not to add the term “cash equivalents” or related guidance in the Standard.

## History of Amendments

*Reporting Requirements for Tier 3 Public Sector Entities* (Tier 3 (PS) Standard) was issued in November 2013.

This table lists the pronouncements establishing and substantially amending Tier 3 (PS) Standard. The table is based on amendments issued as at **31 January 2021**.

<b>Pronouncements</b>	<b>Date issued</b>	<b>Early operative date</b>	<b>Effective date (annual financial statements ... on or after ...)</b>
<i>Public Benefit Entity Simple Format Reporting – Accrual (Public Sector) PBE SFR-A (PS)</i>	Nov 2013	Early application is not permitted	1 July 2014
<i>Interests in Other Entities (Amendments to PBE SFR-A (PS))</i>	Sept 2014	Early application is not permitted	1 July 2014
<i>Amendments to Simple Format Reporting Accounting Requirements as a Consequence of XRB A1</i>	Dec 2015	Early application is permitted	1 Jan 2016
<i>PBE IPSAS 34 Separate Financial Statements</i>	Jan 2017	Early application is permitted	1 Jan 2019
<i>PBE IPSAS 35 Consolidated Financial Statements</i>	Jan 2017	Early application is permitted	1 Jan 2019
<i>PBE IPSAS 36 Interests in Associates and Joint Ventures</i>	Jan 2017	Early application is permitted	1 Jan 2019
<i>PBE IPSAS 37 Joint Arrangements</i>	Jan 2017	Early application is permitted	1 Jan 2019
<i>PBE IPSAS 38 Disclosure of Interests in Other Entities</i>	Jan 2017	Early application is permitted	1 Jan 2019
<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i>	July 2018	Early application is permitted	1 Jan 2019
<i>PBE IPSAS 41 Financial Instruments</i>	Mar 2019	Early application is permitted	1 Jan 2022
<b><i>Amendments to Tier 3 (PS) Standard</i></b>	<b>xx</b>	Early application is permitted	1 Jan 202 <b>x</b>

<b>Table of Amended Paragraphs in Tier 3 (PS) Standard</b>		
<b>Paragraph affected</b>	<b>How affected</b>	<b>By ... [date]</b>
Paragraph 1	Amended	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]

REPORTING REQUIREMENTS FOR TIER 3 PUBLIC SECTOR ENTITIES

<b>Table of Amended Paragraphs in Tier 3 (PS) Standard</b>		
<b>Paragraph affected</b>	<b>How affected</b>	<b>By ... [date]</b>
Paragraph 2	Amended	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]
Paragraph 3	Amended	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]
Paragraph 4	Amended	<i>Interests in Other Entities</i> [Sept 2014]
Paragraphs 4.1 to 4.6	Inserted	<i>Interests in Other Entities</i> [Sept 2014]
Paragraphs 4.1 to 4.6	Amended	PBE IPSAS 34 [Jan 2017]
Paragraph 4.5	Amended	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]
Paragraph 6	Amended	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]
Paragraph 6	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph 7 and preceding heading	Amended	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]
Paragraph 7	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph 7	Amended	PBE IPSAS 41 [Mar 2019]
Paragraph 8	Amended	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]
Paragraph 8	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph 9	Amended	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]
Paragraph 9	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph 11	Added	<i>Interests in Other Entities</i> [Sept 2014]
Paragraph 12	Added	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]
Paragraph 13	Added	PBE IPSAS 34 [Jan 2017]
Paragraph 14	Added	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph 15	Added	PBE IPSAS 41 [Mar 2019]
Paragraph A11	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph A13	Deleted	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph A43	Amended	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]
Table 2: <i>Recording of Specific Types of Expenses</i> (follows paragraph A83)	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]

<b>Table of Amended Paragraphs in Tier 3 (PS) Standard</b>		
<b>Paragraph affected</b>	<b>How affected</b>	<b>By ... [date]</b>
Table 3: <i>Recording of Specific Types of Asset</i> (follows paragraph A109)	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph A109.1	Added	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph A109.2	Added	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph A115	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph A116	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph A117	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph A150.1	Added	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph A150.2	Added	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph A177(a)	Amended	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]
Paragraph A182	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph A184	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Section 11: Glossary Associate, Consolidated performance report, Control, Controlled entity, Controlling entity, Economic entity, Joint control, Joint venture, Significant influence	Added defined terms	<i>Interests in Other Entities</i> [Sept 2014]
Section 11: Glossary Associate, joint arrangement, joint control, joint venture, significant influence	Amended	PBE IPSAS 34 [Jan 2017]
Section 11: Glossary Control, Controlled entity, Controlling entity, Economic entity.	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph B2	Amended	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]
Heading preceding Paragraph B8	Amended	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]
Paragraph B9 and preceding heading	Amended	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]

**Submissions Cover Sheet: Disclosure of Fees Paid to Audit Firms**

Reference	Respondent	Date
<b>Formal submissions</b>		
R1	Auckland Council	27 September 2022
R2	Baker Tilly Staples Rodway	22 September 2022
R3	CA ANZ	30 September 2022
R4	CPA Australia	30 September 2022
R5	EY	30 September 2022
R6	KPMG	30 September 2022
R7	OAG	22 August 2022
R8	PwC*	29 September 2022
<b>Informal submissions</b>		
R9	Professor Tom Scott	16 August 2022

\* PwC submitted two comment letters – one on the for-profit ED and one of the PBE ED

27 September 2022

By email: [accounting@xrb.govt.nz](mailto:accounting@xrb.govt.nz)

**Auckland Council's feedback provided on NZASB Consultation Document and the Accompanying Exposure Draft (ED) for Public Benefit Entities on Improving disclosure of fees paid to audit firms**

Thank you for providing Auckland Council Group (the group) with the opportunity to provide feedback on the Consultation Document and the Accompanying Exposure Draft (ED) for Public Benefit Entities on Improving disclosure of fees paid to audit firms.

We have read the Consultation Document and agree that the enhanced disclosure will improve transparency on each type of service provided by the audit firms for users such as shareholders, regulators and other stakeholders. The enhanced disclosure also enables us to be more consistent in the disclosures of categories of services given examples of each type of service has been clearly described in the standard. In addition, this will also allow easier comparison of professional services fees paid by different entities, for example taxation fees can be compared across similar entities within a sector.

We have only one minor recommendation that the NZASB consider including fees paid by an entity for staff attending training provided by their auditor's firm (for example on implementation of new standards, tax updates etc). We believe this could be included as one of the examples for other services.

Other than the minor recommendation above, we do not have any further comments on the ED. Let us know if you have any questions.

Ngā mihi,

John Bishop  
Group Treasurer  
Auckland Council

22 September 2022

Accounting Standards Team

External Reporting Board

**WELLINGTON**

Via email [accounting@xrb.govt.nz](mailto:accounting@xrb.govt.nz)

### **SUBMISSION ON DISCLOSURE OF FEES PAID TO AUDIT FIRMS PROPOSED AMENDMENTS**

#### **Overall Comments**

Thank you for the opportunity to comment on the Consultation Papers, *FRS-44 Proposed amendments to FRS-44 New Zealand Additional Disclosures* and *PBE IPSAS 1 Proposed amendments to PBE IPSAS 1 Presentation of Financial Reports* ("Proposed amendments"). Overall, we support the proposed amendments as we consider that the enhanced disclosures that will result from these amendments are likely to improve transparency in relation to any additional services provided by audit firms, which will provide useful information to users and may help to improve auditor independence.

We have included our responses to the specific questions raised in the Consultation Papers in Appendix 1. Information about the Baker Tilly Staples Rodway network is provided in Appendix 2.

We hope the comments contained in our submission are useful. If you would like to discuss any of these comments please contact me.

Kind regards

**Nicola Hankinson CA**  
**National Technical Director**  
**Baker Tilly Staples Rodway New Zealand**



## Appendix 1: Responses to specific questions in the Consultation Paper

### General disclosure requirement

1. *Do you agree with the proposal to require the disclosure of fees incurred for services received from each audit or review firm, using specified categories as specified in paragraph 8.3 of the ED?*

Yes, we agree. While it is possible that some of the non-audit or review services are related to the audit, the requirement to include a description of each type of service received and the corresponding fees incurred will allow reporting entities to explain this if this is the case. The most common example of this would be interim financial statement review engagements, which are generally provided by the financial statement auditor. We consider it would be useful if the NZAuASB could include within the updated standards or associated guidance clarification of whether interim financial statement reviews should be included in the "Audit or review of the financial statement" category or the "Audit or review related services" category.

### Description of categories and related guidance

2. *Do you agree with the proposed description and guidance for services that would be disclosed under the category audit or review of the financial statements (ED paragraphs 8.9 – 8.16)?*

Yes.

3. *Do you agree with the proposed description and guidance for services that would be disclosed under the category audit or review related services (ED paragraphs 8.17 – 8.22)?*

Yes.

4. *Do you agree with the proposed description and guidance for services that would be disclosed under the category other assurance services (ED paragraphs 8.23 – 8.27)?*

Yes.

5. *Do you agree with the proposed description and guidance for services that would be disclosed under the category taxation services (ED paragraphs 8.28 – 8.31)?*

Yes.

6. *Do you agree with the proposed description and guidance for services that would be disclosed under the category other services (ED paragraphs 8.32 – 8.35)?*

Yes.

### Disclosure about managing possible threats to auditor or reviewer independence

7. *Do you agree with the proposal that when an entity incurs fees for taxation services or other services it shall disclose information about how it identifies, evaluates, and mitigates the possible threats to the auditor or reviewer independence that might arise from the provision of these services (ED paragraphs 8.31 and 8.35)?*

Yes.

### Reduced disclosure regime

8. *Do you agree that, except for the disclosure requirements in ED paragraphs 8.31 and 8.35, there should be no other disclosure concession for Tier 2 entities?*

Yes.

**Effective date**

9. *Do you agree to an effective date of accounting periods commencing on or after 1 January 2024 (with earlier adoption permitted)?*

Yes.

**Other comments**

10. *Do you have any other comments on the proposed enhanced disclosure requirements in the accompanying ED?*

We consider that this is a positive initiative to enhance transparency regarding the provision of other services to audited entities.

We also consider the flowchart of disclosure requirements is likely to be useful. One suggestion we have is to include the Tier 1 disclosure requirements in para 8.31 and 8.35 of the ED in the flowchart, outlining the requirements to disclose information about how entities identify, evaluate and mitigate the possible threats to auditor or reviewer independence that might arise from the provision of taxation services or other services. There is a risk that Tier 1 entities may inadvertently omit including such disclosures if they follow the flowchart to guide their disclosures. It may be possible to include a footnote in the *Taxation services* and *Other services* boxes to remind preparers of these additional disclosure requirements.

Our final point is that we agree with the conclusion reached in BC15 - we consider it is appropriate to follow developments in Australia and internationally in relation to disclosure requirements for audit tenure.

**Appendix 2: About Baker Tilly Staples Rodway**

Baker Tilly Staples Rodway is an association of independent accounting firms, located in Auckland, Waikato, Tauranga, Hawke's Bay, Taranaki, Wellington and Christchurch. Baker Tilly Staples Rodway is a full-service accounting and business advisory firm with a strong reputation for providing quality advice to privately owned, corporate and public sector organisations.

Baker Tilly Staples Rodway provides cross-border services through our international affiliated firms, including Pitcher Partners in Australia and the Baker Tilly International network.

30 September 2022

Carolyn Cordery  
Chair, New Zealand Accounting Standards Board  
External Reporting Board  
PO Box 11250  
Manners Street Central  
Wellington 6142

Via email: [accounting@xrb.govt.nz](mailto:accounting@xrb.govt.nz)

Dear Carolyn

## Consultation on disclosure of fees paid to audit firms

### ED 2022-9, Proposed amendments to FRS-44 New Zealand Additional Disclosures ED 2022-10, Proposed amendments to PBE IPSAS 1 Presentation of Financial Reports

Chartered Accountants Australia and New Zealand (CA ANZ) welcomes the consultation on the Exposure Drafts (“the EDs”) to improve financial statement disclosures of fees paid by the entity to its external audit firm. **Appendix B** provides more information about CA ANZ.

Preserving confidence in audit and auditor independence is one of the key themes of [What we heard: A New Zealand conversation about securing trust in audit](#) – a white paper that documents a CA ANZ led conversation about the future of audit and its interplay with the governance ecosystem. Audit fee disclosures was one of the key points of discussion. Participants raised that stakeholders are sometimes confused by the disclosures and this can lead to the assumption that all the ‘non-audit’ services are consulting, advisory or other types of services that could compromise independence. Auditor independence could also be perceived to be threatened when the non-audit services fees are a significant portion of the total fees charged by the audit firm without clarity on what those fees relate to. Participants suggested that greater disaggregation of the fees paid to the external auditor for ‘non-audit’ services could provide greater clarity.

We support the proposed specified categories of non-audit services but we believe that agreed-upon procedures services should be included in the list of examples of audit or review related services in proposed paragraph 8.21/116.23 to be explicit how such services should be categorised.

We do not support the proposed disclosure about how the entity manages possible threats to auditor or reviewer independence when taxation services or other services are also provided as we believe it potentially poses several issues. We also make several recommendations to streamline the guidance material to reduce its length and complexity.

**Appendix A** provides our responses to the specific questions raised in the consultation papers. Unless otherwise specified, our comments relate to both the EDs (the Tier 1 and Tier 2 For-profit and Public Benefit Entity Accounting Standards). Should you have any questions about the matters raised in this submission or wish to discuss them further, please contact Zowie Pateman, Deputy Leader – Reporting and Assurance, at [Zowie.Pateman@charteredaccountantsanz.com](mailto:Zowie.Pateman@charteredaccountantsanz.com).

Yours sincerely

**Simon Grant FCA**  
Group Executive – Advocacy, Professional Standing  
and International Development

**Amir Ghandar FCA**  
Assurance and Reporting Leader  
Advocacy and Professional Standing

# Appendix A

## Responses to specific questions

### General disclosure requirement

- 1. Do you agree with the proposal to require the disclosure of fees incurred for services received from each audit or review firm, using specified categories as specified in paragraph 8.3/116.3 of the ED?**

We support the proposed specified categories, as follows:

- the audit or review of the financial statements;
- audit or review related services;
- other assurance services;
- taxation services; and
- other services.

We support greater disaggregation of the disclosure of fees paid or payable to an entity's external audit firm in its financial statements. We believe this will provide greater transparency around the nature of the non-audit services being provided by the entity's external auditor. In our view the additional clarity will also go a long way to alleviating concerns around perceived compromises to auditor independence.

### Description of categories and related guidance

- 2. Do you agree with the proposed description and guidance for services that would be disclosed under the category audit or review of the financial reports (ED paragraphs 8.9–8.16/116.11–116.18)?**

We support the descriptions used for an 'audit engagement' and a 'review engagement' being based on the definitions of these terms as used in the professional and ethical standards issued by the New Zealand Auditing and Assurance Standards Board (NZAuASB).

We recommend paragraphs 8.9/116.11 and 8.13/116.15 are consolidated as they are making the same point in two different ways which may cause confusion.

We do not believe that proposed paragraphs 8.15/116.17, which provide examples of services that form part of the financial statement audit or review, are necessary. The financial statement audit/review is the service, the examples in paragraph 8.15/116.17 are specific aspects of the financial statement audit/review, not individual services. Furthermore, this same approach is not taken for any of the other categories of services.

We do not believe that proposed paragraph 8.16/116.8, which provide examples of services that do not form part of the financial statement audit or review, is necessary either. Furthermore, the audit firm might be prohibited under the professional and ethical standards issued by the NZAuASB from providing some of the services mentioned; for example; (b) Consulting engagements regarding the implementation of new accounting standards and reporting requirements; and (c) Internal audit services, which makes their inclusion inappropriate.

**3. Do you agree with the proposed description and guidance for services that would be disclosed under the category audit or review related services (ED paragraphs 8.17–8.22/116.19–116.24)?**

We are concerned that some entities may categorise agreed-upon procedures services as ‘Other services’ which could be misleading to users who may perceive this category as posing a greater threat to auditor independence, than the other categories. We recommend agreed-upon procedures services be explicitly referred to in the examples of types of audit or review related services in paragraph 8.21/116.23 to eliminate the possibility of inconsistent disclosures emerging.

Agreed-upon procedures services meet the criteria in paragraph 8.17(b)/116.19(b) to be audit or review related services because “it is reasonable to expect such services to be carried out by the entity’s auditor or reviewer”. We are in favour of them being grouped with ‘audit or review related services’ because they are framed as ‘related services’ in the [IAASB’s structure of pronouncements](#) (page 8 of the IAASB Handbook). Similarly, the NZAuASB issues standards for agreed-upon procedures engagements.

On this basis we also support:

- The criteria in paragraph 8.17/116.19 being (a) or (b) as agreed-upon procedures services might not meet the criteria in paragraph 8.17(a)/116.19(a) – “closely related to the work performed as part of the financial statement audit or review engagement”.
- Not limiting audit or review related services to assurance services, because agreed-upon procedures are non-assurance services.

We recommend paragraphs 8.18/116.20 and 8.19/116.21 are consolidated into paragraph 8.17/116.19 as there is an element of duplication which could possibly cause confusion around whether they are additional criteria, or guidance on the criteria.

**4. Do you agree with the proposed description and guidance for services that would be disclosed under the category other assurance services (ED paragraphs 8.23–8.27/116.25–116.29)?**

We support the descriptions used for an ‘assurance engagement’ being based on the definitions of these terms as used in the professional and ethical standards issued by the NZAuASB.

**5. Do you agree with the proposed description and guidance for services that would be disclosed under the category taxation services (ED paragraphs 8.28–8.31/116.30–116.33)?**

We support aligning paragraph 8.30/116.32 with paragraph 604.3 A1 in PES 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*.

**6. Do you agree with the proposed description and guidance for services that would be disclosed under the category other services (ED paragraphs 8.32–8.35/116.34–116.37)?**

We agree with the proposed description and guidance for services that would be disclosed under the category ‘Other services’.

## Disclosure about managing possible threats to auditor or reviewer independence

7. **Do you agree with the proposal that when an entity incurs fees for taxation services or other services it shall disclose information about how it identifies, evaluates, and mitigates the possible threats to auditor or reviewer independence that might arise from the provision of these services (ED paragraphs 8.31/116.33 and 8.35/116.37)?**

This proposal would represent a substantial step away from the extant requirements and the overall approach to mitigating threats to auditor independence. PES 1, based on the *International Code of Ethics for Professional Accountants (including International Independence Standards)*, considers threats to auditor or reviewer independence, and only allows those services for which the threat can be reduced to an acceptable level using safeguards. Requiring disclosure in the financial statements on identifying, evaluating, and mitigating possible threats to auditor or reviewer independence potentially poses the following issues:

- Confusing users of the financial statements, as there would not be reasonable scope to properly explain this in the context of the Board's oversight of the audit or review engagement and audit quality overall.
- Confusing the role and actions of the Board and those of the auditor in addressing threats to independence.
- Hindering the implementation of the other disclosures which are generally agreed and will improve practice compared to current disclosure.

We recommend proceeding without the requirement for these disclosures at this point, but to carry out further investigation in conjunction with the NZAuASB, company directors and other key stakeholders as to the possible value of greater disclosure by directors with a more fulsome context.

## Reduced disclosure regime

8. **Do you agree that, except for the disclosure requirements in ED paragraphs 8.31/116.33 and 8.35/116.37, there should be no other disclosure concession for Tier 2 entities?**

Please see our response to question 7 above.

## Effective date

9. **Do you agree to an effective date of accounting periods commencing on or after 1 January 2024 (with earlier adoption permitted)?**

We agree with the proposed effective date.

## Other comments

10. **Do you have any other comments on the proposed enhanced disclosure requirements in the accompanying ED?**

We recommend removing proposed paragraph 8.1/116.1 as it just refers to the disclosure requirement in proposed paragraph 8.3/116.3 so is superfluous.



The accompanying ED introduces a 'disclosure objective', which appears to be intended to correspond to a concept explored in the recent IASB [disclosure initiative project](#). We recommend the XRB waits until that IASB project is completed, rather than introducing disclosure objectives now. There has been substantial feedback on the disclosure initiative project and this concept is a fundamental change to the overall approach to disclosure – it is not appropriate for adoption on an ad-hoc basis. While we support the use of overall disclosure objectives within individual standards, proposed paragraph 8.2/116.2 would mean there are two different approaches to disclosure within the same standard, and we do not believe this would be an appropriate outcome.

Is it unclear why the order of proposed paragraphs 8.7/116.10 and 8.8/116.9 is not the same between the For-profit and Public Benefit Entity Accounting Standards.

We recommend incorporating paragraphs 8.20/116.22, 8.26/116.28, 8.29/116.31 and 8.33/116.35 into paragraph 8.3/116.3 to further streamline the requirements, as they are repetitive.

## Appendix B

### About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand (CA ANZ) represents 131,673 financial professionals, supporting them to make a difference to the businesses, organisations and communities in which they work and live. Chartered Accountants are known as Difference Makers. The depth and breadth of their expertise helps them to see the big picture and chart the best course of action.

CA ANZ promotes the Chartered Accountant (CA) designation and high ethical standards, delivers world-class services and life-long education to members and advocates for the public good. We protect the reputation of the designation by ensuring members continue to comply with a code of ethics, backed by a robust discipline process. We also monitor Chartered Accountants who offer services directly to the public.

Our flagship CA Program, the pathway to becoming a Chartered Accountant, combines rigorous education with mentored practical experience. Ongoing professional development helps members shape business decisions and remain relevant in a changing world.

We actively engage with governments, regulators and standard-setters on behalf of members and the profession to advocate boldly in the public good. Our thought leadership promotes prosperity in Australia and New Zealand.

Our support of the profession extends to affiliations with international accounting organisations. We are a member of the International Federation of Accountants and are connected globally through Chartered Accountants Worldwide and the Global Accounting Alliance. Chartered Accountants Worldwide brings together members of 15 chartered accounting institutes to create a community of more than 1.8 million Chartered Accountants and students in more than 190 countries. CA ANZ is a founding member of the Global Accounting Alliance which is made up of 10 leading accounting bodies that together promote quality services, share information and collaborate on important international issues.

We have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents more than 870,000 current and next generation accounting professionals across 179 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications.

We employ more than 500 talented people across Australia, New Zealand, Singapore, Malaysia, Hong Kong and the United Kingdom.

30 September 2022

Carolyn Cordery  
Chair, New Zealand Accounting Standards Board  
External Reporting Board  
PO Box 11250  
Manners Street Central  
Wellington 6142

Via email: [accounting@xrb.govt.nz](mailto:accounting@xrb.govt.nz)

Dear Carolyn

**NZASB Exposure Draft 2022-9 - Disclosure of fees paid to audit firms - Proposed amendments to FRS-44 New Zealand Additional Disclosures and NZASB Exposure Draft 2022-10 - proposed amendments to PBE IPSAS 1 Presentation of Financial Reports**

As one of the largest professional accounting bodies in the world, CPA Australia represents the diverse interests of more than 170,000 members working in over 100 countries and regions around the world. We have around 2,700 members working in New Zealand. We thank you for the opportunity to comment on the above Exposure Drafts (EDs) and make this submission on behalf of our members and in the broader public interest.

We are supportive of regulatory reforms that strengthen public confidence in financial reports and strengthen trust in the accounting and auditing professions at large. We believe the proposed new disclosure requirements will enhance the quality, transparency, and consistency of disclosures of fees paid to audit firms.

Specifically, we are supportive of the disclosure of more granular information of fees paid to audit firms for non-audit services, and the nature of the services obtained. Whilst audit firms would have undertaken the necessary steps to ensure independence from the client in considering provision of any non-audit services, the transparency arising from the proposed disclosures is likely to add credibility to this process. From the perspective of those charge with governance, improved disclosures will also enable management to demonstrate accountability and stewardship to stakeholders.

In Australia, regulation of auditor independence requirements is governed by the *Corporation Act 2001*, Australian Auditing Standards and the Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board (APESB). In November 2020, the Parliamentary Joint Committee (PJC) on Corporations and Financial Services Inquiry [Regulation of auditing in Australia](#) made several recommendations directed at ensuring auditor independence and improving the visibility of auditor-client relationships .

These recommendations include:

- establishing defined categories and associated fee disclosure requirements in relation to audit and non-audit services
- establishing a list of non-audit services that audit firms are explicitly prohibited from providing to an audited entity

The Australian Accounting Standards Board (AASB) released [Research Report 15 on the Review of Auditor Remuneration Disclosure Requirements](#) as part of its plan to address the recommendations arising from the PJC inquiry on this matter. Whilst we await a government response to the recommendations arising from the PJC inquiry, we encourage the XRB to continue working closely with the AASB on their respective projects to seek cross-Tasman harmonisation.

The Attachment to this letter sets out our responses to the questions posed in the EDs. Unless otherwise specified, our comments address the proposed amendments outlined in both EDs. If you have any queries about this submission, contact Ram Subramanian, Senior Manager – Reporting and Audit Policy, on 03 9606 9755 or [ram.subramanian@cpaaustralia.com.au](mailto:ram.subramanian@cpaaustralia.com.au).

Yours sincerely,

**Dr Gary Pflugrath FCPA**  
Executive General Manager,  
Policy and Advocacy  
**CPA Australia**

**Rick Jones**  
Country Manager -New Zealand  
**CPA Australia**

## Attachment

### **General disclosure requirement:**

- 1. Do you agree with the proposal to require the disclosure of fees incurred for services received from each audit or review firm, using specified categories as specified in paragraph 8.3 of the ED? [ED 2022-9].  
Do you agree with the proposal to require the disclosure of fees incurred for services received from each audit or review firm, using specified categories as specified in paragraph 116.3 of the ED? [ED 2022-10]**

We agree with the proposed disclosure categories of other services performed by the entity's audit/review firm as noted in para 8.3 (ED 2022-9) and para 116.3 (ED 2022-10). Further disaggregation of other services should improve the consistency and transparency of information disclosed about the fees paid to audit firms and allow users of financial statements to better evaluate the independence of the auditor. However, based on limited outreach we have conducted, our members have cautioned that in some circumstances the fee incurred on other services can be comparatively low to the point of being immaterial. Therefore, even if fees for non-audit services are being paid to audit firms, such disclosures may not always be made due to them not being material.

We note that para 8.3 (ED 2022-9) and para 116.3 (ED 2022-10) include a footnote that explains that the term audit or review firm includes network firms as well. For further clarity and harmonisation with the *Code of Ethics: Independence in Assurance Engagements*, similar to the approach taken in Australian Accounting Standards (AAS) (paragraph 10 of [AASB 1054- Australian Additional Disclosures](#)), we suggest this explanation be included in the paragraph itself, and not as a footnote. The AASB has also decided not to define or provide explanatory material for the term 'network firm' on the basis that the notion is generally well understood, and preparers and auditors are able to refer to the relevant equivalent ethical pronouncements.

To ensure greater clarity, CPA Australia proposes the following wording revisions to para 8.21(a) (ED 2022-9) and para 116.23(a)(ED 2022-10).

*(a) Internal control advisory services outside the scope of the financial report audit or review engagement.*

### **Description of categories and related guidance:**

- 2. Do you agree with the proposed description and guidance for services that would be disclosed under the category audit or review of the financial statements (ED paragraphs 8.9 – 8.16)? [ED 2022-9]  
Do you agree with the proposed description and guidance for services that would be disclosed under the category audit or review of the financial reports (ED paragraphs 116.11 – 116.18)? [ED 2022-10]**

We agree with the proposed description and guidance set out in paras 8.9 - 8.16 (ED 2022-9) and paras 116.11 – 116.18 (ED 2022-10).

- 3. Do you agree with the proposed description and guidance for services that would be disclosed under the category audit or review related services (ED paragraphs 8.17 – 8.22)? [ED 2022-9]  
Do you agree with the proposed description and guidance for services that would be disclosed under the category audit or review related services (ED paragraphs 116.19 – 116.24)? [ED 2022-10]**

We agree with the proposed description and guidance.

- 4. Do you agree with the proposed description and guidance for services that would be disclosed under the category other assurance services (ED paragraphs 8.23 – 8.27)? [ED 2022-9]  
Do you agree with the proposed description and guidance for services that would be disclosed under the category other assurance services (ED paragraphs 116.25 – 116.29)? [ED 2022-10]**

We agree with the proposed description and guidance set out in paras 8.23 - 8.27 (ED 2022-9) and paras 116.25 – 116.29 (ED 2022-10).

5. Do you agree with the proposed description and guidance for services that would be disclosed under the category taxation services (ED paragraphs 8.28 – 8.31)? [ED 2022-9]

Do you agree with the proposed description and guidance for services that would be disclosed under the category taxation services (ED paragraphs 116.30 – 116.33)? [ED 2022-10]

We agree with the proposed guidance set out in the ED paras 8.28-8.31(ED 2022-9). We suggest changing the term “taxation service” to “tax compliance services” to make it distinct.

CPA Australia is generally supportive of the proposed description and guidance for services that would be disclosed under the category of taxation services. However, we suggest the footnote to para 8.30 (ED 2022-9) and para 116.32 (ED 2022-10) which makes reference to PES 1 *Professional and Ethical Standard 1* (PES 1) and includes requirements that prohibit a firm and network firm from providing certain tax services to audit or review clients in certain circumstances, be added as a paragraph in the body of the standard. It should not be in a footnote. In our view, the prohibition requirements in PES 1 are sufficiently important to warrant more prominent placement in the ED.

6. Do you agree with the proposed description and guidance for services that would be disclosed under the category other services (ED paragraphs 8.32 – 8.35 )? [ED 2022-9]

Do you agree with the proposed description and guidance for services that would be disclosed under the category other services (ED paragraphs 116.34 – 116.37 )? [ED 2022-10]

We agree with the proposed guidance set out paras 8.32-8.35 (ED 2022-9). We suggest changing the term “other services” to “other non-assurance services” to make it more understandable, and clearer. Consistent with our view in response to Question 5 above, we suggest the footnote reference to PES 1 in para 8.34 (ED 2022-9) and para 116.36 (ED 2022-10) be added as a paragraph and not as a footnote.

***Disclosure about managing possible threats to auditor or reviewer independence:***

7. Do you agree with the proposal that when an entity incurs fees for taxation services or other services it shall disclose Information about how it identifies, evaluates, and mitigates the possible threats to auditor or reviewer independence that might arise from the provision of these services (ED paragraphs 8.31 and 8.35)? [ED 2022-9]

Do you agree with the proposal that when a Tier 1 entity incurs fees for taxation services or other services it shall disclose Information about how it identifies, evaluates, and mitigates the possible threats to auditor or reviewer independence that might arise from the provision of these services (ED paragraphs 116.33 and 116.37)? [ED 2022-10]

We agree with the proposed disclosures set out in paras 8.31 and 8.35 (ED 2022-9) and paras 116.33 and 116.37 (ED 2022-10). The proposed disclosures will add credibility to the assessment made by the audit firm in ensuring their independence if/when providing non-audit services.

***Reduced disclosure regime:***

8. Do you agree that, except for the disclosure requirements in ED paragraphs 8.31 and 8.35, there should be no other disclosure concession for Tier 2 entities? [ED 2022-9]

Do you agree that, except for the disclosure requirements in ED paragraphs 116.33 and 116.37, there should be no other disclosure concession for Tier 2 entities? [ED 2022-10]

Yes, we agree. Please also see our response to Question 7 above.

***Effective date:***

9. Do you agree to an effective date of accounting periods commencing on or after 1 January 2024 (with earlier adoption permitted)?

No comment.

***Other comments:***

10. Do you have any other comments on the proposed enhanced disclosure requirements in the accompanying ED?

We note there are inconsistencies with the use of the term fees ‘paid’ in some situations, and the term fees ‘incurred’ in other situations. For example, para 8.36 (ED 2022-9) refers to fees ‘paid’ whilst all the other paragraphs in the ED refer to fees ‘incurred’. We also observe that, although the paragraphs itself refers to fees ‘incurred’, the headings refer to fees ‘paid’. We suggest the XRB review the use of terminology and ensure a consistent approach, as there appears to be a difference between fees ‘paid’ and ‘incurred’ as defined in para 8.5 (ED 2022-9) and para 116.8 (ED 2022-10).

To ensure greater clarity and completeness, CPA Australia suggests that examples of services listed in para 8.16 (ED 2022-9) and para 116.18 (ED 2022-10) respectively, be mapped to the relevant non-audit or review services to which these relate and that they be included as examples of services under those other categories. For example, it is currently unclear to which category 'Consulting engagements regarding the implementation of new accounting standards and reporting requirements' and 'Risk management advisory services' should be allocated.



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30 September 2022

Chief Executive  
External Reporting Board  
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Dear April

**NZASB Invitation to Comment on NZASB Exposure Draft 2022-9 (ED 2022-9) and NZASB Exposure Draft 2022-10 (ED 2022-10)**

We are pleased to comment on the proposals set out in the NZASB Invitation to Comment *NZASB Exposure Draft 2022-9: Disclosure of fees paid to audit firms (Proposed amendments to FRS-44)* and *NZASB Exposure Draft 2022-10 Disclosure of fees paid to audit firms (Proposed amendments to PBE IPSAS 1)* together referred to as the EDs. We are encouraged by the NZASB's work to provide more useful information to financial statement users to assess the extent to which non-audit services have been provided by the entities' audit or review firm.

We believe the more specific disclosure and guidance proposed in the EDs will enhance the transparency and consistency of disclosures regarding fees paid to audit or review firms for other services.

We have responded to your specific questions in the appendix attached.

Please do not hesitate to contact either myself or Lara Truman (0274 899 896) should you have any queries. We also would be happy to meet with you to discuss our comments further if required.

Yours faithfully  
Ernst & Young Limited

Susan Jones  
New Zealand Assurance Leader

Simon Brotherton  
New Zealand Professional Practice Director



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## **Appendix A - Response to specific ITC questions**

***Question 1. Do you agree with the proposal to require the disclosure of fees incurred for services received from each audit or review firm, using specified categories as specified in paragraph 8.3 of the ED 2022-9 and paragraph 116.3 of the ED 2022-10?***

We support the NZASB's proposals to amend FRS 44 and PBE IPSAS 1 to introduce enhanced disclosures requiring information about fees incurred for services other than the audit or review of an entity's financial report / statements (referred to as financial statements throughout). We believe users of financial statements will benefit from the enhanced requirements around specific categories, and additional guidance regarding those categories, as we believe it will increase the transparency, consistency and comparability of the information provided in financial statements.

We recognise there is a range of different non-audit services an audit firm might provide to an entity, including newer types such as climate and sustainability related services. It is important to establish clear and consistent disclosure requirements to reflect the services performed. Based on this, we support the proposed EDs.

We also support the general alignment of the requirements in the EDs with the Financial Markets Authority's (FMA's) guidance on the use of additional categories to explain the different types of services an entity has received from its audit or review firm. The EDs will convert the best practice guidance into generally accepted accounting practice so reporting entities will be required to follow consistent requirements. In addition, we are encouraged to see the proposals in the EDs are generally aligned with the recommended disclosure requirements in the Australian market, which audit firms and ASIC have developed to improve transparency and consistency.

***Question 2. Do you agree with the proposed description and guidance for services that would be disclosed under the category audit or review of the financial statements (ED paragraphs 8.9 - 8.16 for ED 2022-9 and ED paragraphs 116.11 - 116.18 for ED 2022-10)?***

We agree with the proposals. The proposals provide a detailed description with examples to help financial statement preparers determine the type of services being provided and the category they should be included in. Having it clearly stated in FRS 44 / PBE IPSAS 1 will support consistent disclosure.

***Question 3. Do you agree with the proposed description and guidance for services that would be disclosed under the category audit or review related services (ED paragraphs 8.17 - 8.22 for ED 2022-9 and ED paragraphs 116.19 - 116.24 for ED 2022-10)?***

We agree with the proposals. The proposals provided a detail description with examples to help financial statement preparers determine what type of services should be included in this category. Having it clearly stated in FRS 44 / PBE IPSAS 1 will support consistent disclosure.

In order to ensure there is a well-defined distinction between 'audit and review related services' and 'other assurance services' we suggest the guidance makes it clear whether audit and review related services could include services that are 'assurance' in nature or whether all 'audit or review related services', which are themselves assurance services, should be included within 'other assurance services'. Presently we consider that it isn't clear whether assurance services (outside of the financial statement audit or review) must be included in other assurance services even when they might meet the definition of audit or review related services.

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**Question 4. Do you agree with the proposed description and guidance for services that would be disclosed under the category other assurance services (ED paragraphs 8.23 - 8.27 of ED 2022-9 and ED paragraphs 116.25 - 116.29 of ED 2022-10)?**

We agree with the proposals. The proposals provided a detail description with examples to help financial statement preparers to determine what type of services should be included in this category. Having it clearly stated in FRS 44 / PBE IPSAS 1 will support consistent disclosure.

The Exposure Draft of Aotearoa New Zealand Climate Standard (NZ CS) 1: *Climate-related Disclosures* would require climate reporting entities to ensure that climate statements that disclose greenhouse gas emissions are the subject of an assurance engagement. We believe the examples proposed in paragraph 8.27(a) of ED 2022-9 and proposed paragraph 116.29(a) of ED 2022-10 (or their assurance related equivalents) should make reference to NZ CS 1 (once finalised), so that there is no ambiguity in categorising the assurance services required NZ CS 1 when this requirement become effective.

Also, see above Question 4 for suggestions regarding the distinction between audit and review related services and other assurance services.

**Question 5. Do you agree with the proposed description and guidance for services that would be disclosed under the category taxation services (ED paragraphs 8.28 - 8.31 of ED 2022-9 and ED paragraphs 116.30 - 116.33 of ED 2022-10)?**

We agree with the proposals. The proposals provided a detail description with examples to help financial statement preparers to determine what type of services should be included in this category. Having it clearly stated in FRS 44 / PBE IPSAS 1 will support consistent disclosure.

In the examples provided in the paragraph 30 of ED 2022-9 and paragraph 116.32 of ED 2022-10, we believe the amendments could also include transfer pricing and international tax assignments, as these are also common types of taxation services requested by entities.

**Question 6. Do you agree with the proposed description and guidance for services that would be disclosed under the category other services (ED paragraphs 8.32 - 8.35 of ED 2022-9 and ED paragraphs 116.34 - 116.37 of ED 2022-10)?**

We agree with the proposals. The proposals provided a detail description with examples to help financial statement preparers to determine what type of services should be included in this category. Having it clearly stated in FRS 44 / PBE IPSAS 1 will support consistent disclosure.

**Question 7. Do you agree with the proposal that when an (a Tier 1 for ED 2022-10) entity incurs fees for taxation services or other services it shall disclose information about how it identifies, evaluates, and mitigates the possible threats to auditor or reviewer independence that might arise from the provision of these services (ED paragraphs 8.31 and 8.35 of ED 2022-9 and ED paragraphs 116.33 and 116.37 of ED 2022-10)?**

We do not agree with the proposals. We do not believe the financial statements of an entity are the appropriate place to include disclosures regarding information about how an entity identifies, evaluates and mitigates threats of independence. We consider this proposal to be contrary to the purpose of the financial statements, which is to provide information related to the financial performance of the entity. It also appears inconsistent with any other requirements related to disclosure of governance considerations which are appropriately included in the annual report (where applicable) as opposed to the financial statements. Disclosures provided within an entity's audit report provide clear understanding of the requirements to be independent and the audit or review firms' compliance with these requirements.

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**Question 8. Do you agree that, except for the disclosure requirements in ED paragraphs 8.31 and 8.35 for ED 2022-9 and ED paragraphs 116.33 and 116.37 for ED 2022-10, there should be no other disclosure concession for Tier 2 entities?**

No, we don't agree with the proposals in the EDs. We believe the NZASB should consider providing reduced disclosure concessions for Tier 2 entities. It is unclear why the NZASB has decided to remove the existing concession in FRS 44 and PBE IPSAS 1. If the NZASB decides to retain these requirements we believe the basis for conclusions should detail why the concession has been removed. In our view, these additional requirements will require additional work for Tier 2 entities but with limited benefit given the users of the financial statements. We note the current Australian recommendations from ASIC only apply to listed entities.

We would support a requirement that Tier 2 entities disclose the fees for audit/review and non-audit/review services with no further classification or breakdown. Under the current requirements in FRS 44 and PBE IPSAS 1, Tier 2 entities are not required to disclose audit fees at all. We believe the cost of requiring the additional detailed disclosure requirements for Tier 2 entities would outweigh the benefits.

**Question 9. Do you agree to an effective date of accounting periods commencing on or after 1 January 2024 (with earlier adoption permitted)?**

Yes, we agree with the proposed effective date. By providing more than a year for the effective date, it provides enough time for reporting entities to gather the required information for disclosure purposes.

**Question 10. Do you have any other comments on the proposed enhanced disclosure requirements in the accompanying ED 2022-9 and ED 2022-10?**

In the flow chart after paragraph 8.36 of ED 2022-9 and paragraph 116.38 of ED 2022-10, the conclusion box on the left bottom corner states that "No disclosure required about non-audit services provided by the entity's audit or review firm". This implies that certain non-audit services have been provided by the entity's audit or review firm but are exempted from disclosure. We believe this is not the intended result. Instead we believe that all non-audit services provided by the auditor or reviewer should already be classified into one of the three specific categories or any other services. Therefore, the conclusion box should state "No disclosure required because no non-audit/review services have been provided by the entity's audit or review firm".



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30 September 2022

To Whom it may concern

***Invitation to comment - NZASB Exposure Draft 2022-9 Proposed amendments to FRS-44 New Zealand Additional Disclosures***

KPMG welcomes the opportunity to provide comments on the proposed amendments to FRS-44. Our responses are included below and are also applicable to the proposed NZASB Exposure Draft 2022-10 amendments to PBE IPSAS 1 *Presentation of Financial Reports*.

A distinguishing mark of the audit profession is its acceptance of the responsibility to act in the public interest. Both independence of mind and independence in appearance are necessary for the auditor to express a conclusion free from bias, conflict of interest, and undue influence. A breach of the independence requirements can influence investors' trust of the audit, and therefore auditor independence is important in underpinning the integrity of financial markets and accordingly have appropriate controls and disclosures to comply with the accounting standards, lowering the risk of non-compliance.

Overall, we support the amendments to FRS-44 and PBE IPSAS 1. However, we would like to take this opportunity to highlight one issue identified in our review of Exposure Draft 2022-9.

Responses to consultation questions:

**Question 1 to 7, and 9**

Yes, we agree with the proposal specified in the ED.

**Question 8. Do you agree that, except for the disclosure requirements in ED paragraphs 8.31 and 8.35, there should be no other disclosure concession for Tier 2 entities?**

Yes, we agree there should be no other disclosure concession for Tier 2 entities. We note the users of Tier 2 financial statements are typically limited and are usually closer to the financial statement preparation. Also, without this concession, this requirement may cover much more entities in the market where critical independence assessment is less relevant to the users. The concession is also consistent with the approach of the overall Tier 2 framework.



30 September 2022

**Question 10. Do you have any other comments on the proposed enhanced disclosure requirements in the accompanying ED?**

We agree with the principal objective of the proposed amendments, to provide sufficient and useful information about auditor independence.

We note the ED clarifies a method to be used to determine which fee should be disclosed – a function of fees 'incurred' in the reporting period (ED paragraphs 8.3). Audit services for a specific reporting period are incurred both before and after the reporting period subject to audit. This means that audit fees related to the current reporting period may only be reported in the incurred fees for the following reporting year. Additionally the incurred fees may include audit fees related to the previous reporting period. Likewise non-audit services provided between the reporting date and the date of the auditor's report may be excluded which would not be a complete and accurate record of an audit firm's engagement fees for that reporting period.

The assessment of independence by the auditor and Board/Audit Committee is based on the period beyond the reporting period, being the period covered by both the engagement period and the period covered by the financial statements (PES 1 paragraph R400.30). We consider the proposed amendments should align with PES 1 where possible to ensure that the scope of audit and non-assurance services are appropriately identified in the correct reporting period.

This is an opportunity to review and align with PES 1 to achieve the objectives of the proposed amendments - to require disclosure of total audit fees and non-audit services relevant to the reporting period provided in both the engagement period and the period covered by the financial statements. If the NZASB are in agreement with this view, we see need to provide clear guidance that the disclosure is to cover both fees incurred during both the engagement period and during the period covered by the financial statements as defined under PES 1 paragraph R400.30. We also suggest potentially including a specific paragraph that disclosure under paragraph 8.3 is not a direct representation of the entity's accounting records (i.e. amount incurred does not agree to the disclosure in the financial statements), instead it is a summary of fees incurred during the relevant independence period, being both the engagement period and the period covered by the financial statements.

Yours sincerely

**Darby Healey**

Partner



22 August 2022

External Reporting Board  
PO Box 11250,  
Manners St Central,  
Wellington 6142.

Submitted via the online form

Attention: April Mackenzie

Dear April

**NZASB Exposure Drafts 2022-9 and 2022-10 *Disclosure of fees paid to audit firms***

Thank you for the opportunity to comment on Exposure Drafts 2022-9 and 2022-10 *Disclosure of fees paid to audit firms*.

We agree in principle with the proposals for a reporting entity to expand the disclosure of fees paid to auditors in a reporting period. However, we have some observations that we would like the New Zealand Accounting Standards Board (the Board) to consider before concluding on the proposals.

***Assurance practitioners are responsible for complying with the independence requirements of PES 1***

In parts of the Exposure Drafts<sup>1</sup> it is implied that those charged with governance of the entity are responsible for ensuring that the auditor is independent. This is not correct because PES 1 requires assurance practitioners to comply with the minimum independence requirements specified in PES 1. Compliance with PES 1 is not a responsibility of the entity. Furthermore, paragraph NZ1.4 of PES 1 states:

*“In applying the requirements outlined in the Code, assurance practitioners shall be guided not merely by the words, but also by the spirit of the Code.”*

This means that assurance practitioners are responsible for ensuring they are independent. That responsibility cannot be deferred to, or overridden by, the entity.

However, those charged with governance of the entity can exercise a higher standard of independence than that specified in PES 1 should they consider that PES 1 does not adequately prescribe a standard of auditor independence with which they are comfortable.

In our opinion, paragraphs \*116.33 and \*116.37 of PBE IPSAS 1 (and the equivalent paragraphs in FRS-44) incorrectly place a disclosure obligation on the entity when that obligation correctly falls on the assurance practitioner. Accordingly, a disclosure about how the assurance practitioner identifies, evaluates, and mitigates the possible threats to independence for the provision of taxation or other services should be made by the assurance practitioner in their audit or review report.

We recommend that the Board considers whether it is appropriate to place an obligation on the entity to disclose information about how it identifies, evaluates, and mitigates the possible threats to independence that might arise if the audit or review firm carries out taxation or other services for the entity.

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<sup>1</sup> Paragraphs \*116.33 and \*116.37 of PBE IPSAS 1

## ***Categorising the types of engagement***

Some confusion might arise when attempting to allocate engagements to the categories under paragraph 116.3(b) of PBE IPSAS 1 (and the equivalent paragraph in FRS-44).

### *Paragraphs 116.3(b)(i) and (ii) of PBE IPSAS 1 (and the equivalent paragraphs in FRS-44)*

In our view, confusion begins to emerge between categories 116.3(b)(i) and (ii) in the context of the technical meaning of “assurance” and an “assurance engagement”. The glossary to PES 1 defines an assurance engagement as:

*“An engagement in which an assurance practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria.”*

This is effectively the same as the definition of an “assurance service” in 116.26.

Such an engagement could easily fall within categories 116.3(b)(i) or 116.3(b)(ii).

Another way of categorising “assurance engagements” could be to simply combine all engagements that “express a conclusion” under one heading. Alternatively, such engagements could be separated into two categories; one category where there is a requirement to “express a conclusion to a party external to the entity or entity group” and another category where there is a requirement to “express a conclusion to a party internal to the entity or entity group”

### *Engagements that do not express a conclusion but do provide assurance*

Assurance practitioners will often carry out engagements that have an assurance purpose but do not express a conclusion. A good example is an agreed-upon-procedures engagement when an assurance practitioner might report the result of some procedures they have carried out but will not express a conclusion. Similarly, some engagements may be designed to detect deficiencies in systems or processes. The assurance practitioner will report their findings but will not express a conclusion over the system or process.

The categories under paragraph 116.3(b) of PBE IPSAS 1 (and the equivalent paragraph in FRS-44) do not appear to cater for this type of engagement.

### *Non-assurance services*

Paragraphs 116.3(b)(iii) and (iv) of PBE IPSAS 1 (and the equivalent paragraphs in FRS-44) are disclosures about what are commonly referred to as non-assurance services. The two categories (tax and other services) could be combined under the heading of non-assurance services and the separate engagements could be described in accordance with paragraphs 116.31 and 116.35 of PBE IPSAS 1 (and the equivalent paragraphs in FRS-44). The information value of the disclosures is in describing the nature of each type of engagement.

However, we do not have a strong view on whether “taxation services” and “other services” should be categorised under separate headings or together under a single “non-assurance services” heading.

If you have any questions about our submission, please contact Roy Glass at [roy.glass@oag.parliament.nz](mailto:roy.glass@oag.parliament.nz)

Yours sincerely,

Todd Beardsworth  
Assistant Auditor-General – Audit Quality



Carolyn Cordery, Chair  
New Zealand Accounting Standards Board  
PO Box 11250  
Manners St Central  
Wellington 6142

29 September 2022

## **Exposure Draft NZASB 2022-9: Disclosure of fees paid to audit firms ('ED 2022-9')**

Dear Carolyn

We appreciate the opportunity to comment on the proposed amendments to FRS-44 *New Zealand Additional Disclosures* (ED 2022-9).

This response is on behalf of PricewaterhouseCoopers New Zealand (PwC NZ). References to "PwC", "we" and "our" refer to PwC NZ only. This submission is not made on behalf of the global network of member firms.

### **Overall comments**

Overall, we broadly support the NZASB's proposed changes and believe they represent an appropriate response to:

- improve the consistency and transparency of information disclosed about fees paid to an entity's audit or review firm for different types of services
- provide information that will assist users of general purpose financial statements to assess the extent to which non-audit services have been provided by the entity's audit or review firm in a reporting period.

### **Questions for respondents**

Our responses to the specific questions raised in the ED are attached in Appendix A. We appreciate the opportunity to provide feedback on the ED. Please do not hesitate to contact me should there be any matters you would like to discuss further.

Yours sincerely

Jonathan Freeman  
Audit Risk Management Partner





## Appendix A

### General disclosure requirement

#### Question 1

Do you agree with the proposal to require the disclosure of fees incurred for services received from each audit or review firm, using specified categories as specified in paragraph 8.3 of the ED?

#### Comment 1

Yes, this will improve the consistency and transparency of information disclosed about fees paid to an entity's audit or review firm for different types of services.

However, consideration should also be given to whether additional disclosure is required for services received or engaged before issuing the financial statements, where these services have not been included in the disclosure of fees incurred for services received. These services are also relevant to assessing the independence of the audit or review firm at the time they sign their auditor's report and, in our view, are required to obtain a better understanding of the nature and quantum of non-audit services. As these fees would not have been accrued in the period being audited or reviewed, these fees could be presented in a separate table, paragraph or footnote.

Auditors are required under ISA NZ 700 (Revised): *Forming an opinion and reporting on financial statements para NZ28.1* to include in the auditor's report a statement as to the existence of any relationship (other than that of auditor) which the auditor has with an entity. That relationship is up to the date of the auditor's report. Therefore if an auditor has undertaken other non-audit services between the date of the financial statements and the date of the auditor's report the auditor should disclose this in the auditor's report. This has led to auditors often asking entities to include a narrative disclosure regarding such services in the financial statements to ensure both align.

### Description of categories and related guidance

#### Question 2

Do you agree with the proposed description and guidance for services that would be disclosed under the category *audit or review of the financial statements* (ED paragraphs 8.9 – 8.16)?

#### Comment 2

Yes but further clarification is needed to expand what is expected to be disclosed under this category to include for example: limited assurance reports on banks capital adequacy and liquidity disclosures which will now be performed under ISAE (NZ) 3000. These are integral to the financial statements (Disclosure Statements) of banks. In our experience fees for these engagements are not separately agreed and sit more naturally under this category as opposed to Other Assurance Services, where they would possibly sit on a strict reading of this ED.

Under paragraph 8.16 of the ED internal audit services are listed, which are generally prohibited from being performed by the auditor. We recommend that the Board revisits this list to ensure that items that would generally not be permitted services under PES 1 are excluded from the listed examples.



**Question 3**

Do you agree with the proposed description and guidance for services that would be disclosed under the category *audit or review related services* (ED paragraphs 8.17 – 8.22)?

**Comment 3**

Yes.

However, it would be helpful for the guidance to clarify that these related services may include non-assurance services, such as agreed upon procedures (AUP) engagements that are related to the audit or review or where it is reasonable to expect the AUP to be carried out by the entity's auditor or reviewer, otherwise it could be interpreted that these fall into the category of Other Services as currently drafted. Further, engagements relating to reporting to trustees as part of the audit could also be added to the guidance for this category.

Also, we suggest that reasonable assurance engagements on solvency returns for insurance entities under ISAE (NZ) 3000/SAE 3100 are specifically included in this category.

**Question 4**

Do you agree with the proposed description and guidance for services that would be disclosed under the category *other assurance services* (ED paragraphs 8.23 – 8.27)?

**Comment 4**

Yes. However we question why paragraph 8.25 is needed. Paragraph 8.23 states that any assurance service provided is to be included in this category. Therefore paragraph 8.25 does not seem to have a valid purpose.

In paragraph 8.27 consideration should be given to including another example being: Assurance over prospective financial information. It is usual for a limited assurance report to be issued under ISAE 3000 on disclosure documents.

We recommend considering whether to either specifically include other agreed upon procedures engagements (which are not already captured under the "*audit or review related services*" category) in this category or create a separate category for all agreed upon procedures engagements altogether. We consider there are generally very limited independence threats due to the nature of these services as these are performed under a standard issued by the NZASB and are generally performed by assurance practitioners. Agreed upon procedures are different to taxation and other services and to include them in the other services category may therefore provide misleading information about the significance of non-audit independence threats. We consider other agreed upon procedures services to be more closely aligned to assurance services. If these services were to be included within other assurance services this category could be renamed to "Other assurance and other agreed upon procedures services".

**Question 5**

Do you agree with the proposed description and guidance for services that would be disclosed under the category *taxation services* (ED paragraphs 8.28 – 8.31)?

**Comment 5**

Yes. Consideration could also be given as to whether transfer pricing services provided by firms should be included as an example as this is a common service provided by tax practitioners.



**Question 6**

Do you agree with the proposed description and guidance for services that would be disclosed under the category *other services* (ED paragraphs 8.32 – 8.35 )?

**Comment 6:**

Yes, however the type of services outlined in paragraph 8.34 should be compared to the restrictions on services that can be provided by auditors or reviewers under PES1.

**Disclosure about managing possible threats to auditor or reviewer independence**

**Question 7**

Do you agree with the proposal that when an entity incurs fees for *taxation services* or *other services* it shall disclose Information about how it identifies, evaluates, and mitigates the possible threats to auditor or reviewer independence that might arise from the provision of these services (ED paragraphs 8.31 and 8.35)?

**Comment 7**

No. For the following reasons:

ISA (NZ) 700 (Revised) paragraph NZ28.1 requires the auditor’s report to include a statement on the existence of any relationship (other than that of auditor) which the auditor has with, or any interests which the auditor has in, the entity and paragraph NZ40(b)(1) requires the auditor to provide those charged with governance with a statement that the auditor has complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on the auditor’s independence, and where applicable, actions taken to eliminate threats or safeguards applied.

We believe that disclosure by an entity of information about how it identifies, evaluates, and mitigates the possible threats to auditor or reviewer independence that might arise from the provision of these services, should be disclosed in the corporate governance section in the annual report rather than the financial statements. We do not regard this as a financial statement reporting matter.

**Reduced disclosure regime**

**Question 8**

Do you agree that, except for the disclosure requirements in ED paragraphs 8.31 and 8.35, there should be no other disclosure concession for Tier 2 entities?

**Comment 8**

No. Tier 2 entities are entities which do not have public accountability as their stakeholders are not widely dispersed, which is the reason for allowing reduced disclosures.

Other services are required to be disclosed in the auditor’s report, and as such users will be aware if other services have been provided by the audit firm. Given that Tier 2 entities’ stakeholders are not widely dispersed, they will have the ability to obtain further information related to the non-audit services that they require.

The requirement for additional disclosure would also place an additional burden on Tier 2 entities to categorise the nature of each service and allocate the correct amount to each categorisation and will increase the auditor’s time and costs for auditing these disclosures.

We therefore believe that Tier 2 entities should not be required to disclose the information set out in this exposure draft but that they could do so voluntarily.



### **Effective date**

#### **Question 9**

Do you agree to an effective date of accounting periods commencing on or after 1 January 2024 (with earlier adoption permitted)?

#### **Comment 9**

Yes.

### **Other comments**

#### **Question 10**

Do you have any other comments on the proposed enhanced disclosure requirements in the accompanying ED?

#### **Comment 10**

Consideration should be given to clarify that services provided by a firm for an entity includes the firms within its network, i.e. the definition of "firm" is the network.



Carolyn Cordery, Chair  
New Zealand Accounting Standards Board  
PO Box 11250  
Manners St Central  
Wellington 6142

29 September 2022

## **Exposure Draft NZASB 2022-10: Disclosure of fees paid to audit firms ('ED 2022-10')**

Dear Carolyn

We appreciate the opportunity to comment on the proposed amendments to PBE IPSAS 1 *Presentation of financial reports* (ED 2022-10).

This response is on behalf of PricewaterhouseCoopers New Zealand (PwC NZ). References to "PwC", "we" and "our" refer to PwC NZ only. This submission is not made on behalf of the global network of member firms.

### **Overall comments**

Overall, we broadly support the NZASB's proposed changes and believe they represent an appropriate response to:

- improve the consistency and transparency of information disclosed about fees paid to an entity's audit or review firm for different types of services
- provide information that will assist users of general purpose financial statements to assess the extent to which non-audit services have been provided by the entity's audit or review firm in a reporting period.

### **Questions for respondents**

Our responses to the specific questions raised in the ED are attached in Appendix A. We appreciate the opportunity to provide feedback on the ED. Please do not hesitate to contact me should there be any matters you would like to discuss further.

Yours sincerely

Jonathan Freeman  
Audit Risk Management Partner



## Appendix A

### General disclosure requirement

#### Question 1

Do you agree with the proposal to require the disclosure of fees incurred for services received from each audit or review firm, using specified categories as specified in paragraph 116.3 of the ED?

#### Comment 1

Yes, this will improve the consistency and transparency of information disclosed about fees paid to an entity's audit or review firm for different types of services.

However, consideration should also be given to whether additional disclosure is required for services received or engaged before issuing the financial statements, where these services have not been included in the disclosure of fees incurred for services received. These services are also relevant to assessing the independence of the audit or review firm at the time they sign their auditor's report and, in our view, are required to obtain a better understanding of the nature and quantum of non-audit services. As these fees would not have been accrued in the period being audited or reviewed, these fees could be presented in a separate table, paragraph or footnote.

Auditors are required under ISA NZ 700 (Revised): *Forming an opinion and reporting on financial statements para NZ28.1* to include in the auditor's report a statement as to the existence of any relationship (other than that of auditor) which the auditor has with an entity. That relationship is up to the date of the auditor's report. Therefore if an auditor has undertaken other non-audit services between the date of the financial statements and the date of the auditor's report the auditor should disclose this in the auditor's report. This has led to auditors often asking entities to include a narrative disclosure regarding such services in the financial statements to ensure both align.

### Description of categories and related guidance

#### Question 2

Do you agree with the proposed description and guidance for services that would be disclosed under the category *audit or review of the financial statements* (ED paragraphs 116.11 – 116.18)?

#### Comment 2

Yes

However, under paragraph 116.18 of the ED internal audit services are listed, which are generally prohibited from being performed by the auditor. We recommend that the Board revisits this list to ensure that items that would generally not be permitted services under PES 1 are excluded from the listed examples.



**Question 3**

Do you agree with the proposed description and guidance for services that would be disclosed under the category *audit or review related services* (ED paragraphs 116.19 – 116.24)?

**Comment 3**

Yes.

However, it would be helpful for the guidance to clarify that these related services may include non-assurance services, such as agreed upon procedures (AUP) engagements that are related to the audit or review or where it is reasonable to expect the AUP to be carried out by the entity's auditor or reviewer, otherwise it could be interpreted that these fall into the category of Other Services as currently drafted. Further, engagements relating to reporting to trustees as part of the audit could also be added to the guidance for this category.

Also, if applicable to PBE audits, we suggest that reasonable assurance engagements on solvency returns for insurance entities under ISAE (NZ) 3000/SAE 3100 are specifically included in this category.

**Question 4**

Do you agree with the proposed description and guidance for services that would be disclosed under the category *other assurance services* (ED paragraphs 116.25 – 116.29)?

**Comment 4**

Yes. However we question why paragraph 116.27 is needed. Paragraph 116.25 states that any assurance service provided is to be included in this category. Therefore paragraph 116.27 does not seem to have a valid purpose.

In paragraph 116.29 consideration should be given to including another example being: Assurance over prospective financial information. It is usual for a limited assurance report to be issued under ISAE 3000 on disclosure documents.

We recommend considering whether to either specifically include other agreed upon procedures (which are not already captured under the "*audit or review related services*" category) in this category or create a separate category for other agreed upon procedures altogether. We consider there are generally very limited independence threats due to the nature of these services as these are performed under a standard issued by the NZASB and are generally performed by assurance practitioners. Agreed upon procedures are different to taxation and other services and to include them in the other services category may therefore provide misleading information about the significance of non-audit independence threats. We consider other agreed upon procedures services to be more closely aligned to assurance services. If these services were to be included within other assurance services this category could be renamed to "Other assurance and other agreed upon procedures services".

**Question 5**

Do you agree with the proposed description and guidance for services that would be disclosed under the category *taxation services* (ED paragraphs 116.30 – 116.33)?

**Comment 5**

Yes. Consideration could also be given as to whether transfer pricing services provided by firms should be included as an example as this is a common service provided by tax practitioners.



**Question 6**

Do you agree with the proposed description and guidance for services that would be disclosed under the category *other services* (ED paragraphs 116.34 – 116.37)?

**Comment 6:**

Yes, however the type of services outlined in paragraph 116.36 should be compared to the restrictions on services that can be provided by auditors or reviewers under PES1.

**Disclosure about managing possible threats to auditor or reviewer independence**

**Question 7**

Do you agree with the proposal that when a Tier 1 entity incurs fees for *taxation services* or *other services* it shall disclose Information about how it identifies, evaluates, and mitigates the possible threats to auditor or reviewer independence that might arise from the provision of these services (ED paragraphs 116.33 and 116.37)?

**Comment 7**

No. For the following reasons:

ISA (NZ) 700 (Revised) paragraph NZ28.1 requires the auditor's report to include a statement on the existence of any relationship (other than that of auditor) which the auditor has with, or any interests which the auditor has in, the entity and paragraph NZ40(b)(1) requires the auditor to provide those charged with governance with a statement that the auditor has complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on the auditor's independence, and where applicable, actions taken to eliminate threats or safeguards applied.

We believe that disclosure by an entity of information about how it identifies, evaluates, and mitigates the possible threats to auditor or reviewer independence that might arise from the provision of these services, should be disclosed in the corporate governance section in the annual report rather than the financial statements. We do not regard this as a financial statement reporting matter.

**Reduced disclosure regime**

**Question 8**

Do you agree that, except for the disclosure requirements in ED paragraphs 116.33 and 116.37, there should be no other disclosure concession for Tier 2 entities?

**Comment 8**

No. Tier 2 entities are entities which do not have public accountability as their stakeholders are not widely dispersed, which is the reason for allowing reduced disclosures.

Other services are required to be disclosed in the auditor's report, and as such users will be aware if other services have been provided by the audit firm. Given that Tier 2 entities' stakeholders are not widely dispersed, they will have the ability to obtain further information related to the non-audit services that they require.

The requirement for additional disclosure would also place an additional burden on Tier 2 entities to categorise the nature of each service and allocate the correct amount to each categorisation and will increase the auditor's time and costs for auditing these disclosures.

We therefore believe that Tier 2 entities should not be required to disclose the information set out in this exposure draft but that they could do so voluntarily.





### **Effective date**

#### **Question 9**

Do you agree to an effective date of accounting periods commencing on or after 1 January 2024 (with earlier adoption permitted)?

#### **Comment 9**

Yes.

### **Other comments**

#### **Question 10**

Do you have any other comments on the proposed enhanced disclosure requirements in the accompanying ED?

#### **Comment 10**

Consideration should be given to clarify that services provided by a firm for an entity includes the firms within its network, i.e. the definition of “firm” is the network.

## Email from Tom Scott (received 16 August 2022)

I agree with questions 1-6 and 8-9.

In regarding 7, my view is that the disclosure about managing possible threats to independence will be a boilerplate and thus not useful to users of the financial statements.

In regards to 10, other comments on the proposed enhanced disclosure requirements in the accompanying ED OI would like to increase the disclosure of remuneration advisors/compensation consultants – those hired to design executive compensation plans and provide independent recommendations on pay packages

The Australian Treasury's Corporations Amendment (Improving Accountability on Director and Executive Remuneration) Bill 2011 requires all Australian listed companies to disclose details of compensation consultants used for fiscal years ending after 1 July 2011. Under Section 300A (h) of the Corporations Act 2001 the company must disclose (1) the name of the compensation consultant, (2) an overview of the work completed relating to the pay recommendation, (3) a description of other services provided by the consultant, (4) fees paid to the consultant for compensation and other non-compensation related services and (5) a statement confirming the independent nature of the recommendation by the compensation consultant and Board of Directors.

NZ does not have the same disclosure requirements. Why is this important? In Australia, 27% of compensation consultants are a Big 4 accounting firm - relative to a negligible percentage in the US. Although there is no clear NZ data it would be prudent to assume we follow Australia. Although the compensation consultant is not also the auditor, and the firms may have offered compensation consulting as an additional service to a client the concern is that by the firm setting the CEOs pay may create a threat to independence for a future auditor.

### Tom Scott

Associate Professor of Accounting

Interim Head of Department

Editor-in-Chief, Pacific Accounting Review

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