PUBLIC BENEFIT ENTITY INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 1 PRESENTATION OF FINANCIAL STATEMENTS (PBE IPSAS 1)

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Public Benefit Entity International Public Sector Accounting Standard 1 *Presentation of Financial Statements* is set out in paragraphs 1–154.1. All the paragraphs have equal authority. PBE IPSAS 1 should be read in the context of its objective, the Basis for Conclusions, and Standard XRB A1 *Accounting Standards Framework*. PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to prescribe the manner in which general purpose financial statements should be presented to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. To achieve this objective, this Standard sets out overall considerations for the presentation of financial statements, guidance for their structure, and minimum requirements for the content of financial statements. The recognition, measurement, and disclosure of specific transactions and other events are dealt with in other PBE Standards.

Scope

2. **This Standard shall be applied to all general purpose financial statements prepared and presented in accordance with PBE Standards.**

3. General purpose financial statements are those intended to meet the needs of users who are not in a position to demand reports tailored to meet their particular information needs. Users of general purpose financial statements include taxpayers and ratepayers, members of the legislature, creditors, suppliers, the media, and employees. General purpose financial statements include those that are presented separately or within another public document, such as an annual report. This Standard does not apply to condensed interim financial information (see PBE IAS 34 *Interim Financial Reporting*).

4. This Standard applies equally to all entities and whether or not they need to prepare consolidated financial statements or separate financial statements, as defined in PBE IPSAS 6 *Consolidated and Separate Financial Statements*.

5. [Not used.]

5.1 **This Standard applies to public sector public benefit entities in Tier 1 and public sector public benefit entities that are eligible for and elect to apply Tier 2 PBE Standards.**

5.2 **A Tier 2 entity is not required to comply with the requirements in this Standard denoted with an asterisk (*). Where a Tier 2 entity elects to apply a disclosure concession it shall comply with any RDR paragraphs associated with that concession.**

6. [Not used.]

Definitions

7. **The following terms are used in this Standard with the meanings specified:**

<u>Assets</u> are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.

<u>Contributions from owners</u> means future economic benefits or service potential that has been contributed to the entity by parties external to the entity, other than those that result in liabilities of the entity, that establish a financial interest in the net assets/equity of the entity, which:

(a) **Conveys entitlement both to (i) distributions of future economic benefits or service potential by the entity during its life, such distributions being at the discretion of the owners or their representatives, and to (ii) distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or**

(b) **Can be sold, exchanged, transferred, or redeemed.**

<u>Distributions to owners</u> means future economic benefits or service potential distributed by the entity to all or some of its owners, either as a return on investment or as a return of investment.

<u>Economic entity</u> means a group of entities comprising a controlling entity and one or more controlled entities.

<u>Expenses</u> are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets/equity, other than those relating to distributions to owners.

<u>Impracticable</u> Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.

Liabilities are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.

Material Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature and size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.

Net assets/equity is the residual interest in the assets of the entity after deducting all its liabilities.

Notes contain information in addition to that presented in the statement of financial position, statement(s) of comprehensive revenue and expense, statement of changes in net assets/equity and cash flow statement. Notes provide narrative descriptions or disaggregations of items disclosed in those statements and information about items that do not qualify for recognition in those statements.

Other comprehensive revenue and expense comprises items of revenue and expense (including reclassification adjustments) that are not recognised in surplus or deficit as required or permitted by other PBE Standards.

The components of other comprehensive revenue and expense include:

(a) Changes in revaluation surplus (see PBE IPSAS 17 *Property, Plant and Equipment* and PBE IPSAS 31 *Intangible Assets*);

(b) Remeasurements of defined benefit plans (see PBE IPSAS 25 *Employee Benefits*);

(c) Gains and losses arising from translating the financial statements of a foreign operation (see PBE IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*);

(d) Gains and losses on remeasuring available-for-sale financial assets (see PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*); and

(e) The effective portion of gains and losses on hedging instruments in a cash flow hedge (see PBE IPSAS 29).

Public Benefit Entity Standards (PBE Standards) are standards issued by the New Zealand Accounting Standards Board (NZASB) of the External Reporting Board comprising:

(a) **Public Benefit Entity International Public Sector Accounting Standards;**

(b) **Public Benefit Entity International Financial Reporting Standards, including Public Benefit Entity International Accounting Standards; and**

(c) **Public Benefit Entity Financial Reporting Standards.**

Reclassification adjustments are amounts reclassified to surplus or deficit in the current period that were recognised in other comprehensive revenue and expense in the current or previous periods.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.

Surplus or deficit is the total of revenue less expenses, excluding the components of other comprehensive revenue and expense.

Total comprehensive revenue and expense is the change in net assets/equity during a period resulting from transactions and other events, other than those changes resulting from transactions with owners in their capacity as owners.

Total comprehensive revenue and expense comprises all components of 'surplus or deficit' and of 'other comprehensive revenue and expense'.

Terms defined in other PBE Standards are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.

7.1 **The following terms are used in this Standard with the meaning specified:**

<u>Inputs</u> are the resources used to produce the goods and services which are the outputs of the entity.

<u>Outcomes</u> are the impacts on, or consequences for, the community resulting from the existence and operations of the entity.

<u>Outputs</u> are the goods and services produced by the entity.

7A. The following terms are described in PBE IPSAS 28 *Financial Instruments: Presentation* and are used in this Standard with the meaning specified in PBE IPSAS 28:

(a) Puttable financial instrument classified as an equity instrument (described in paragraphs 15 and 16 of PBE IPSAS 28);

(b) An instrument that imposes on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and is classified as an equity instrument (described in paragraphs 17 and 18 of PBE IPSAS 28).

Economic Entity

8. The term economic entity is used in this Standard to define, for financial reporting purposes, a group of entities comprising the controlling entity and any controlled entities.

9. Other terms sometimes used to refer to an economic entity include administrative entity, financial entity, consolidated entity, and group.

10. An economic entity may include entities with both social policy and commercial objectives. For example, an entity providing housing may be an economic entity that includes entities that provide housing for a nominal charge, as well as entities that provide accommodation on a commercial basis.

Future Economic Benefits or Service Potential

11. Assets provide a means for entities to achieve their objectives. Assets that are used to deliver goods and services in accordance with an entity's objectives, but which do not directly generate net cash inflows, are often described as embodying service potential. Assets that are used to generate net cash inflows are often described as embodying future economic benefits. To encompass all the purposes to which assets may be put, this Standard uses the term "future economic benefits or service potential" to describe the essential characteristic of assets.

12. [Not used.]

Materiality

13. Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. Users are assumed to have a reasonable knowledge of the public benefit sector and economic activities and accounting, and a willingness to study the information with reasonable diligence. Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

Net Assets/Equity

14. Net assets/equity is the term used in this Standard to refer to the residual measure in the statement of financial position (assets less liabilities). Net assets/equity may be positive or negative. Other terms may be used in place of net assets/equity, provided that their meaning is clear.

Purpose of Financial Statements

15. Financial statements are a structured representation of the financial position and financial performance of an entity. The objectives of general purpose financial statements are to provide information about the financial position, financial performance, and cash flows of an entity that is useful to a wide range of users in making and evaluating decisions about the allocation of resources. Specifically, the objectives of general purpose financial reporting should be to provide information useful for decision making, and to demonstrate the accountability of the entity for the resources entrusted to it, by:

(a) Providing information about the sources, allocation, and uses of financial resources;

(b) Providing information about how the entity financed its activities and met its cash requirements;

(c) Providing information that is useful in evaluating the entity's ability to finance its activities and to meet its liabilities and commitments;

(d) Providing information about the financial condition of the entity and changes in it; and

(e) Providing aggregate information useful in evaluating the entity's performance in terms of service costs, efficiency, and accomplishments.

16. General purpose financial statements can also have a predictive or prospective role, providing information useful in predicting the level of resources required for continued operations, the resources that may be generated by continued operations, and the associated risks and uncertainties. Financial reporting may also provide users with information:

(a) Indicating whether resources were obtained and used in accordance with the legally adopted budget; and

(b) Indicating whether resources were obtained and used in accordance with legal and contractual requirements, including financial limits established by appropriate legislative authorities.

17. To meet these objectives, the financial statements provide information about an entity's:

(a) Assets;

(b) Liabilities;

(c) Net assets/equity;

(d) Revenue;

(e) Expenses;

(f) Other changes in net assets/equity; and

(g) Cash flows.

18. Although the information contained in financial statements can be relevant for the purpose of meeting the objectives in paragraph 15, it is unlikely to enable all these objectives to be met. This is likely to be particularly so in respect of entities whose primary objective may not be to make a profit, as managers are likely to be accountable for the achievement of service delivery as well as financial objectives. Supplementary information, including non-financial statements, may be reported alongside the financial statements in order to provide a more comprehensive picture of the entity's activities during the period.

Responsibility for Financial Statements

19. The responsibility for the preparation and presentation of financial statements varies across entities. In addition, an entity may draw a distinction between who is responsible for preparing the financial statements and who is responsible for approving or presenting the financial statements. Examples of people or positions who may be responsible for the preparation of the financial statements of individual entities (such as government departments or their equivalent) include the individual who heads the entity (the permanent head or chief executive) and the head of the central finance agency (or the senior finance official, such as the controller or accountant-general).

20. The responsibility for the preparation of the consolidated financial statements of the government as a whole usually rests jointly with the head of the central finance agency (or the senior finance official, such as the controller or accountant-general) and the finance minister (or equivalent).

Components of Financial Statements

21. **A complete set of financial statements comprises:**

(a) **A statement of financial position;**

(b) **A statement of comprehensive revenue and expense;**

(c) **A statement of changes in net assets/equity;**

(d) **A cash flow statement;**

(e) **When the entity makes publicly available its approved budget, a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the financial statements; and**

(f) **Notes, comprising a summary of significant accounting policies and other explanatory notes.**

22. An entity may use titles for the statements other than those used in this Standard.

22.1 **An entity shall present all items of revenue and expense recognised in a period:**

(a) **In a single statement of comprehensive revenue and expense, with surplus or deficit and other comprehensive revenue and expense presented in two sections. The sections shall be presented together, with the surplus or deficit section presented first followed directly by the other comprehensive revenue and expense section; or**

(b) **In two statements: a statement displaying components of surplus or deficit (separate statement of financial performance) and a second statement beginning with surplus or deficit and displaying components of other comprehensive revenue and expense (statement of other comprehensive revenue and expense).**

Illustration of paragraph 22.1

Paragraph 22.1 permits an entity to present either one statement of comprehensive revenue and expense or two statements: a statement of financial performance and a statement of other comprehensive revenue and expense.

(a) One statement		**(b) Two statements**	
Statement of Comprehensive Revenue and Expense		**Statement of Financial Performance**	
Revenue	XX	Revenue	XX
Less Expenses	XX	Less Expenses	XX
Surplus/(deficit) for period	XX	Surplus/(deficit) for period	XX
Other Comprehensive Revenue and Expense			
Gain on property revaluation	XX	**Statement of Other Comprehensive Revenue and Expense**	
Other comprehensive revenue and expense for the period	XX	Surplus/(deficit) for period	XX
Total comprehensive revenue and expense for the period	XX	Gain on property revaluation	XX
		Other comprehensive revenue and expense for the period	XX
		Total comprehensive revenue and expense for the period	XX

23. The financial statements provide users with information about an entity’s resources and obligations at the reporting date and the flow of resources between reporting dates. This information is useful for users making assessments of an entity’s ability to continue to provide goods and services at a given level, and the level of resources that may need to be provided to the entity in the future so that it can continue to meet its service delivery obligations.

24. Public sector entities are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which may be given effect through authorising legislation. General purpose financial reporting by public sector entities may provide information on whether resources were obtained and used in accordance with the legally adopted budget.

24.1 Where an entity presents a comparison, in the financial statements, of prospective financial information and actual financial information, such a comparison shall be in accordance with the requirements of this Standard.

25. Entities are encouraged to present additional information to assist users in assessing the performance of the entity, and its stewardship of assets, as well as making and evaluating decisions about the allocation of resources. This additional information may include details about the entity's outputs and outcomes in the form of (a) performance indicators, (b) statements of service performance, (c) programme reviews, and (d) other reports by management about the entity's achievements over the reporting period.

26. Entities are also encouraged to disclose information about compliance with legislative, regulatory, or other externally-imposed regulations. When information about compliance is not included in the financial statements, it may be useful for a note to refer to any documents that include that information. Knowledge of non-compliance is likely to be relevant for accountability purposes, and may affect a user's assessment of the entity's performance and direction of future operations. It may also influence decisions about resources to be allocated to the entity in the future.

Overall Considerations

Fair Presentation and Compliance with PBE Standards

*27. **Financial statements shall present fairly the financial position, financial performance, and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue, and expenses set out in PBE Standards. The application of PBE Standards, with additional disclosures when necessary, is presumed to result in financial statements that achieve a fair presentation.**

RDR27.1 **Financial statements shall present fairly the financial position, financial performance and cash flows of a Tier 2 entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses set out in the PBE Standards. The application of the Reduced Disclosure Regime, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.**

28. **An entity whose financial statements comply with PBE Standards shall make an explicit and unreserved statement of such compliance in the notes. Financial statements shall not be described as complying with PBE Standards unless they comply with all the requirements of PBE Standards.**

28.1 **An entity shall disclose in the notes:**

(a) **The statutory base under which the financial statements are prepared;**

(b) **The fact that, for the purposes of financial reporting, it is a public benefit entity; and**

(c) **That it has (i) reported in accordance with Tier 1 PBE Standards or (ii) elected to report in accordance with Tier 2 PBE Standards and applied disclosure concessions. Entities reporting in accordance with Tier 2 PBE Standards shall also disclose the criteria that establish the entity as eligible to report in accordance with Tier 2 PBE Standards.**

28.2 A number of entities are required by the Financial Reporting Act 1993 to prepare general purpose financial statements that comply with GAAP. The legislative definition of GAAP in this Act refers to applicable financial reporting standards approved by the External Reporting Board, which include PBE Standards. PBE Standards include requirements and guidance specific to public benefit entities and provide reduced disclosures for entities that qualify to apply the Reduced Disclosure Regime. An entity asserting compliance with NZ GAAP therefore needs to describe the financial reporting standards that have been applied by the entity. For example:

(a) An entity complying with Tier 1 PBE Standards would state: "The financial statements have been prepared in accordance with Tier 1 PBE Standards"; and

(b) An entity complying with Tier 2 PBE Standards would state: "The financial statements have been prepared in accordance with Tier 2 PBE Standards and disclosure concessions have been applied. The criteria under which an entity is eligible to report in accordance with Tier 2 PBE Standards are [insert criteria as appropriate]".

29. In virtually all circumstances, a fair presentation is achieved by compliance with applicable PBE Standards. A fair presentation also requires an entity:

(a) To select and apply accounting policies in accordance with PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*. PBE IPSAS 3 sets out a hierarchy of authoritative guidance that management considers, in the absence of a Standard that specifically applies to an item.

(b) To present information, including accounting policies, in a manner that provides relevant, reliable, comparable, and understandable information.

(c) To provide additional disclosures when compliance with the specific requirements in PBE Standards is insufficient to enable users to understand the impact of particular transactions, other events, and conditions on the entity's financial position and financial performance.

30. **Inappropriate accounting policies are not rectified either by disclosure of the accounting policies used, or by notes or explanatory material.**

31. **In the extremely rare circumstances in which management concludes that compliance with a requirement in a Standard would be so misleading that it would conflict with the objective of financial statements set out in this Standard, the entity shall depart from that requirement in the manner set out in paragraph 32 if the relevant regulatory framework requires, or otherwise does not prohibit, such a departure.)**

31.1 **Entities that are required to comply with applicable financial reporting standards in accordance with the Financial Reporting Act 1993 are not permitted to depart from a requirement in an applicable financial reporting standard in the circumstances described in paragraph 31.**

31.2 Entities that are required to prepare financial statements in accordance with a regulatory framework other than the Financial Reporting Act 1993 will need to ascertain whether that regulatory framework permits or prohibits a departure from a requirement of an applicable financial reporting standard in the circumstances described in paragraph 31.

32. **When an entity departs from a requirement of a Standard in accordance with paragraph 31, it shall disclose:**

(a) **That management has concluded that the financial statements present fairly the entity's financial position, financial performance, and cash flows;**

(b) **That it has complied with applicable PBE Standards, except that it has departed from a particular requirement to achieve a fair presentation;**

(c) **The title of the Standard from which the entity has departed, the nature of the departure, including the treatment that the Standard would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements set out in this Standard, and the treatment adopted; and**

(d) **For each period presented, the financial impact of the departure on each item in the financial statements that would have been reported in complying with the requirement.**

33. **When an entity has departed from a requirement of a Standard in a prior period, and that departure affects the amounts recognised in the financial statements for the current period, it shall make the disclosures set out in paragraph 32(c) and (d).**

34. Paragraph 33 applies, for example, when an entity departed in a prior period from a requirement in a Standard for the measurement of assets or liabilities, and that departure affects the measurement of changes in assets and liabilities recognised in the current period's financial statements.

35. **In the extremely rare circumstances in which management concludes that compliance with a requirement in a Standard would be so misleading that it would conflict with the objective of financial statements set out in this Standard, but the relevant regulatory framework prohibits departure from the requirement, the entity shall, to the maximum extent possible, reduce the perceived misleading aspects of compliance by disclosing:**

(a) **The title of the Standard in question, the nature of the requirement, and the reason why management has concluded that complying with that requirement is so misleading in the**

circumstances that it conflicts with the objective of financial statements set out in this Standard; and

(b) **For each period presented, the adjustments to each item in the financial statements that management has concluded would be necessary to achieve a fair presentation**.

36. For the purpose of paragraphs 31–35, an item of information would conflict with the objective of financial statements when it does not represent faithfully the transactions, other events, and conditions that it either purports to represent or could reasonably be expected to represent and, consequently, it would be likely to influence decisions made by users of financial statements. When assessing whether complying with a specific requirement in a Standard would be so misleading that it would conflict with the objective of financial statements set out in this Standard, management considers:

(a) Why the objective of financial statements is not achieved in the particular circumstances; and

(b) How the entity's circumstances differ from those of other entities that comply with the requirement. If other entities in similar circumstances comply with the requirement, there is a rebuttable presumption that the entity's compliance with the requirement would not be so misleading that it would conflict with the objective of the financial statements set out in this Standard.

37. [Not used.]

Going Concern

38. **When preparing financial statements, an assessment of an entity's ability to continue as a going concern shall be made. This assessment shall be made by those responsible for the preparation of financial statements. Financial statements shall be prepared on a going concern basis unless there is an intention to liquidate the entity or to cease operating, or if there is no realistic alternative but to do so. When those responsible for the preparation of the financial statements are aware, in making their assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, those uncertainties shall be disclosed. When financial statements are not prepared on a going concern basis, that fact shall be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern.**

39. Financial statements are normally prepared on the assumption that the entity is a going concern and will continue in operation and meet its statutory obligations for the foreseeable future. In assessing whether the going concern assumption is appropriate, those responsible for the preparation of financial statements take into account all available information about the future, which is at least, but is not limited to, twelve months from the approval of the financial statements.

40. The degree of consideration depends on the facts in each case, and assessments of the going concern assumption are not predicated on the solvency test usually applied to business enterprises. There may be circumstances where the usual going concern tests of liquidity and solvency appear unfavourable, but other factors suggest that the entity is nonetheless a going concern. For example:

(a) In assessing whether a government is a going concern, the power to levy rates or taxes may enable some entities to be considered as a going concern, even though they may operate for extended periods with negative net assets/equity; and

(b) For an individual entity, an assessment of its statement of financial position at the reporting date may suggest that the going concern assumption is not appropriate. However, there may be multi-year funding agreements or other arrangements in place that will ensure the continued operation of the entity.

41. The determination of whether the going concern assumption is appropriate is primarily relevant for individual entities rather than for a government as a whole. For individual entities, in assessing whether the going concern basis is appropriate, those responsible for the preparation of financial statements may need to consider a wide range of factors relating to (a) current and expected performance, (b) potential and announced restructurings of organisational units, (c) estimates of revenue or the likelihood of continued government funding, and (d) potential sources of replacement financing before it is appropriate to conclude that the going concern assumption is appropriate.

Consistency of Presentation

42. **The presentation and classification of items in the financial statements shall be retained from one period to the next unless:**

    (a) **It is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in PBE IPSAS 3; or**

    (b) **A PBE Standard requires a change in presentation.**

43. A significant acquisition or disposal, or a review of the presentation of the financial statements, might suggest that the financial statements need to be presented differently. For example, an entity may dispose of a savings bank that represents one of its most significant controlled entities and the remaining economic entity conducts mainly administrative and policy advice services. In this case, the presentation of the financial statements based on the principal activities of the economic entity as a financial institution is unlikely to be relevant for the new economic entity.

44. An entity changes the presentation of its financial statements only if the changed presentation provides information that is reliable and is more relevant to users of the financial statements, and the revised structure is likely to continue, so that comparability is not impaired. When making such changes in presentation, an entity reclassifies its comparative information in accordance with paragraphs 55 and 56.

Materiality and Aggregation

45. **Each material class of similar items shall be presented separately in the financial statements. Items of a dissimilar nature or function shall be presented separately, unless they are immaterial.**

46. Financial statements result from processing large numbers of transactions or other events that are aggregated into classes according to their nature or function. The final stage in the process of aggregation and classification is the presentation of condensed and classified data, which form line items on the face of the statement of financial position, statement of comprehensive revenue and expense, statement of changes in net assets/equity, and cash flow statement, or in the notes. If a line item is not individually material, it is aggregated with other items either on the face of those statements or in the notes. An item that is not sufficiently material to warrant separate presentation on the face of those statements may nevertheless be sufficiently material for it to be presented separately in the notes.

47. Applying the concept of materiality means that a specific disclosure requirement in a PBE Standard need not be satisfied if the information is not material.

Offsetting

48. **Assets and liabilities, and revenue and expenses, shall not be offset unless required or permitted by a PBE Standard.**

49. It is important that assets and liabilities, and revenue and expenses, are reported separately. Offsetting in the statement of comprehensive revenue and expense or the statement of financial position, except when offsetting reflects the substance of the transaction or other event, detracts from the ability of users both (a) to understand the transactions, other events and conditions that have occurred, and (b) to assess the entity's future cash flows. Measuring assets net of valuation allowances – for example, obsolescence allowances on inventories and doubtful debts allowances on receivables – is not offsetting.

50. PBE IPSAS 9 *Revenue from Exchange Transactions* defines revenue and requires it to be measured at the fair value of consideration received or receivable, taking into account the amount of any trade discounts and volume rebates allowed by the entity. An entity undertakes, in the course of its ordinary activities, other transactions that do not generate revenue but are incidental to the main revenue-generating activities. The results of such transactions are presented, when this presentation reflects the substance of the transaction or other event, by netting any revenue with related expenses arising on the same transaction. For example:

    (a) Gains and losses on the disposal of non-current assets, including investments and operating assets, are reported by deducting from the proceeds on disposal the carrying amount of the asset and related selling expenses; and

(b) Expenses related to a provision that is recognised in accordance with PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* and reimbursed under a contractual arrangement with a third party (for example, a supplier's warranty agreement) may be netted against the related reimbursement.

51. In addition, gains and losses arising from a group of similar transactions are reported on a net basis, for example, foreign exchange gains and losses and gains and losses arising on financial instruments held for trading. Such gains and losses are, however, reported separately if they are material.

52. The offsetting of cash flows is dealt with in PBE IPSAS 2 *Cash Flow Statements*.

Comparative Information

53. **Except when a PBE Standard permits or requires otherwise, comparative information shall be disclosed in respect of the previous period for all amounts reported in the financial statements. Comparative information shall be included for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.**

54. In some cases, narrative information provided in the financial statements for the previous period(s) continues to be relevant in the current period. For example, details of a legal dispute, the outcome of which was uncertain at the last reporting date and is yet to be resolved, are disclosed in the current period. Users benefit from information (a) that the uncertainty existed at the last reporting date, and (b) about the steps that have been taken during the period to resolve the uncertainty.

55. **When the presentation or classification of items in the financial statements is amended, comparative amounts shall be reclassified unless the reclassification is impracticable. When comparative amounts are reclassified, an entity shall disclose:**

(a) **The nature of the reclassification;**

(b) **The amount of each item or class of items that is reclassified; and**

(c) **The reason for the reclassification.**

56. **When it is impracticable to reclassify comparative amounts, an entity shall disclose:**

(a) **The reason for not reclassifying the amounts; and**

*(b) **The nature of the adjustments that would have been made if the amounts had been reclassified.**

57. Enhancing the inter-period comparability of information assists users in making and evaluating decisions, especially by allowing the assessment of trends in financial information for predictive purposes. In some circumstances, it is impracticable to reclassify comparative information for a particular prior period to achieve comparability with the current period. For example, data may not have been collected in the prior period(s) in a way that allows reclassification, and it may not be practicable to recreate the information.

58. PBE IPSAS 3 deals with the adjustments to comparative information required when an entity changes an accounting policy or corrects an error.

Structure and Content

Introduction

59. This Standard requires particular disclosures on the face of the statement of financial position, statement of comprehensive revenue and expense, separate statement of financial performance (if presented), and statement of changes in net assets/equity, and requires disclosure of other line items either on the face of those statements or in the notes. PBE IPSAS 2 sets out requirements for the presentation of a cash flow statement.

60. This Standard sometimes uses the term disclosure in a broad sense, encompassing items presented on the face of the (a) statement of financial position, (b) statement of comprehensive revenue and expense, (c) statement of changes in net assets/equity, and (d) cash flow statement, as well as in the notes. Disclosures are also required by other PBE Standards. Unless specified to the contrary elsewhere in this Standard, or in another Standard, such disclosures are made either on the face of the statement of financial

position, statement of comprehensive revenue and expense, statement of changes in net assets/equity or cash flow statement (whichever is relevant), or in the notes.

Identification of the Financial Statements

61. **The financial statements shall be identified clearly, and distinguished from other information in the same published document.**

62. PBE Standards apply only to financial statements, and statements of service performance, and not to other information presented in an annual report or other document. Therefore, it is important that users can distinguish information that is prepared using PBE Standards from other information that may be useful to users but is not the subject of those requirements.

63. **Each component of the financial statements shall be identified clearly. In addition, the following information shall be displayed prominently, and repeated when it is necessary for a proper understanding of the information presented:**

    (a) **The name of the reporting entity or other means of identification, and any change in that information from the preceding reporting date;**

    (b) **Whether the financial statements cover the individual entity or the economic entity;**

    (c) **The reporting date or the period covered by the financial statements, whichever is appropriate to that component of the financial statements;**

    (d) **The presentation currency, as defined in PBE IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*; and**

    (e) **The level of rounding used in presenting amounts in the financial statements.**

64. The requirements in paragraph 63 are normally met by presenting page headings and abbreviated column headings on each page of the financial statements. Judgement is required in determining the best way of presenting such information. For example, when the financial statements are presented electronically, separate pages are not always used; the above items are then presented frequently enough to ensure a proper understanding of the information included in the financial statements.

65. Financial statements are often made more understandable by presenting information in thousands or millions of units of the presentation currency. This is acceptable as long as the level of rounding in presentation is disclosed and material information is not omitted.

Reporting Period

66. **Financial statements shall be presented at least annually. When an entity's reporting date changes and the annual financial statements are presented for a period longer or shorter than one year, an entity shall disclose, in addition to the period covered by the financial statements:**

    (a) **The reason for using a longer or shorter period; and**

    (b) **The fact that comparative amounts for certain statements such as the statement of comprehensive revenue and expense, statement of changes in net assets/equity, cash flow statement, and related notes are not entirely comparable.**

67. In exceptional circumstances, an entity may be required to, or decide to, change its reporting date, for example in order to align the reporting cycle more closely with the budgeting cycle or to align the reporting date of a controlled entity with the reporting date of its controlling entity. When this is the case, it is important that (a) users be aware that the amounts shown for the current period and comparative amounts are not comparable, and (b) the reason for the change in reporting date is disclosed.

68. Normally, financial statements are consistently prepared covering a one-year period. However, for practical reasons, some entities prefer to report, for example, for a 52-week period. This Standard does not preclude this practice, because the resulting financial statements are unlikely to be materially different from those that would be presented for one year.

Timeliness

69. The usefulness of financial statements is impaired if they are not made available to users within a reasonable period after the reporting date. An entity should be in a position to issue its financial

statements within six months of the reporting date. Ongoing factors such as the complexity of an entity's operations are not sufficient reason for failing to report on a timely basis. More specific deadlines are dealt with by legislation and regulations.

Statement of Financial Position

Current/Non-current Distinction

70. **An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its statement of financial position in accordance with paragraphs 76–87, except when a presentation based on liquidity provides information that is reliable and is more relevant. When that exception applies, all assets and liabilities shall be presented broadly in order of liquidity.**

*71. **Whichever method of presentation is adopted, for each asset and liability line item that combines amounts expected to be recovered or settled (a) no more than twelve months after the reporting date, and (b) more than twelve months after the reporting date, an entity shall disclose the amount expected to be recovered or settled after more than twelve months.**

72. When an entity supplies goods or services within a clearly identifiable operating cycle, separate classification of current and non-current assets and liabilities on the face of the statement of financial position provides useful information by distinguishing the net assets that are continuously circulating as working capital from those used in the entity's long-term operations. It also highlights assets that are expected to be realised within the current operating cycle, and liabilities that are due for settlement within the same period.

73. For some entities, such as financial institutions, a presentation of assets and liabilities in increasing or decreasing order of liquidity provides information that is reliable and is more relevant than a current/non-current presentation, because the entity does not supply goods or services within a clearly identifiable operating cycle.

74. In applying paragraph 70, an entity is permitted to present some of its assets and liabilities using a current/non-current classification, and others in order of liquidity, when this provides information that is reliable and is more relevant. The need for a mixed basis of presentation might arise when an entity has diverse operations.

*75. Information about expected dates of realisation of assets and liabilities is useful in assessing the liquidity and solvency of an entity. PBE IPSAS 30 *Financial Instruments: Disclosures* requires disclosure of the maturity dates of financial assets and financial liabilities. Financial assets include trade and other receivables, and financial liabilities include trade and other payables. Information on the expected date of recovery and settlement of non-monetary assets and liabilities such as inventories and provisions is also useful, whether or not assets and liabilities are classified as current or non-current.

Current Assets

76. **An asset shall be classified as current when it satisfies any of the following criteria:**

    (a) **It is expected to be realised in, or is held for sale or consumption in, the entity's normal operating cycle;**

    (b) **It is held primarily for the purpose of being traded;**

    (c) **It is expected to be realised within twelve months after the reporting date; or**

    (d) **It is cash or a cash equivalent (as defined in PBE IPSAS 2 *Cash Flow Statements*), unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.**

    All other assets shall be classified as non-current.

77. This Standard uses the term non-current assets to include tangible, intangible, and financial assets of a long-term nature. It does not prohibit the use of alternative descriptions as long as the meaning is clear.

78. The operating cycle of an entity is the time taken to convert inputs or resources into outputs. For instance, governments transfer resources to public sector entities so that they can convert those resources into goods and services, or outputs, to meet the government's desired social, political, and economic

outcomes. When the entity's normal operating cycle is not clearly identifiable, its duration is assumed to be twelve months.

79. Current assets include assets (such as taxes receivable, user charges receivable, fines and regulatory fees receivable, contract grants receivable, prepayments, inventories and accrued investment revenue) that are either realised, consumed or sold, as part of the normal operating cycle even when they are not expected to be realised within twelve months after the reporting date. Current assets also include assets held primarily for the purpose of trading (examples include some financial assets classified as held for trading in accordance with PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*) and the current portion of non-current financial assets.

Current Liabilities

80. **A liability shall be classified as current when it satisfies any of the following criteria:**

(a) **It is expected to be settled in the entity's normal operating cycle;**

(b) **It is held primarily for the purpose of being traded;**

(c) **It is due to be settled within twelve months after the reporting date; or**

(d) **The entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date (see paragraph 84). Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.**

All other liabilities shall be classified as non-current.

81. Some current liabilities, such as government transfers payable and some accruals for employee and other operating costs, are part of the working capital used in the entity's normal operating cycle. Such operating items are classified as current liabilities even if they are due to be settled more than twelve months after the reporting date. The same normal operating cycle applies to the classification of an entity's assets and liabilities. When the entity's normal operating cycle is not clearly identifiable, its duration is assumed to be twelve months.

82. Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within twelve months after the reporting date or held primarily for the purpose of being traded. Examples are some financial liabilities classified as held for trading in accordance with PBE IPSAS 29, bank overdrafts, and the current portion of non-current financial liabilities, dividends or similar distributions payable, income taxes and other non-trade payables. Financial liabilities that provide financing on a long-term basis (i.e., are not part of the working capital used in the entity's normal operating cycle) and are not due for settlement within twelve months after the reporting date are non-current liabilities, subject to paragraphs 85 and 86.

83. An entity classifies its financial liabilities as current when they are due to be settled within twelve months after the reporting date, even if:

(a) The original term was for a period longer than twelve months; and

(b) An agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting date and before the financial statements are authorised for issue.

84. If an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting date under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. However, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no agreement to refinance), the potential to refinance is not considered and the obligation is classified as current.

85. When an entity breaches an undertaking under a long-term loan agreement on or before the reporting date, with the effect that the liability becomes payable on demand, the liability is classified as current, even if the lender has agreed, after the reporting date and before the authorisation of the financial statements for issue, not to demand payment as a consequence of the breach. The liability is classified as current because, at the reporting date, the entity does not have an unconditional right to defer its settlement for at least twelve months after that date.

86. However, the liability is classified as non-current if the lender agreed by the reporting date to provide a period of grace ending at least twelve months after the reporting date, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.

87. In respect of loans classified as current liabilities, if the following events occur between the reporting date and the date the financial statements are authorised for issue, those events qualify for disclosure as non-adjusting events in accordance with PBE IPSAS 14 *Events after the Reporting Date*:

(a) Refinancing on a long-term basis;

(b) Rectification of a breach of a long-term loan agreement; and

(c) The receipt from the lender of a period of grace to rectify a breach of a long-term loan agreement ending at least twelve months after the reporting date.

Information to be Presented on the Face of the Statement of Financial Position

88. **As a minimum, the face of the statement of financial position shall include line items that present the following amounts:**

(a) **Property, plant and equipment;**

(b) **Investment property;**

(c) **Intangible assets;**

(d) **Financial assets (excluding amounts shown under (e), (g), (h) and (i));**

(e) **Investments accounted for using the equity method;**

(f) **Inventories;**

(g) **Recoverables from non-exchange transactions;**

(h) **Receivables from exchange transactions;**

(i) **Cash and cash equivalents;**

(j) **Taxes and transfers payable;**

(k) **Payables under exchange transactions;**

(l) **Provisions;**

(m) **Financial liabilities (excluding amounts shown under (j), (k) and (l));**

(n) **Minority interest, presented within net assets/equity; and**

(o) **Net assets/equity attributable to owners of the controlling entity.**

88.1 **The face of the statement of financial position shall also include the following:**

(a) **The total of assets classified as held for sale and assets included in disposal groups classified as held for sale in accordance with PBE IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*; and**

(b) **Liabilities included in disposal groups classified as held for sale in accordance with PBE IFRS 5.**

89. **Additional line items, headings, and sub-totals shall be presented on the face of the statement of financial position when such presentation is relevant to an understanding of the entity's financial position.**

90. This Standard does not prescribe the order or format in which items are to be presented. Paragraph 88 simply provides a list of items that are sufficiently different in nature or function to warrant separate presentation on the face of the statement of financial position. Illustrative formats are set out in Implementation Guidance to this Standard. In addition:

(a) Line items are included when the size, nature, or function of an item or aggregation of similar items is such that separate presentation is relevant to an understanding of the entity's financial position; and

(b) The descriptions used and the ordering of items or aggregation of similar items may be amended according to the nature of the entity and its transactions, to provide information that is relevant to an understanding of the entity's financial position.

91. The judgement on whether additional items are presented separately is based on an assessment of:

(a) The nature and liquidity of assets;

(b) The function of assets within the entity; and

(c) The amounts, nature and timing of liabilities.

92. The use of different measurement bases for different classes of assets suggests that their nature or function differs and, therefore, that they should be presented as separate line items. For example, different classes of property, plant, and equipment can be carried at cost or revalued amounts in accordance with PBE IPSAS 17 *Property, Plant and Equipment*.

Information to be Presented either on the Face of the Statement of Financial Position or in the Notes

93. **An entity shall disclose, either on the face of the statement of financial position or in the notes, further sub-classifications of the line items presented, classified in a manner appropriate to the entity's operations.**

94. The detail provided in sub-classifications depends on the requirements of PBE Standards and on the size, nature and function of the amounts involved. The factors set out in paragraph 91 also are used to decide the basis of sub-classification. The disclosures vary for each item, for example:

(a) Items of property, plant and equipment are disaggregated into classes in accordance with PBE IPSAS 17;

(b) Receivables are disaggregated into amounts receivable from user charges, taxes and other non-exchange revenues, receivables from related parties, prepayments, and other amounts;

(c) Inventories are sub-classified in accordance with PBE IPSAS 12 *Inventories* into classifications such as merchandise, production supplies, materials, work in progress, and finished goods;

(d) Taxes and transfers payable are disaggregated into tax refunds payable, transfers payable, and amounts payable to other members of the economic entity;

(e) Provisions are disaggregated into provisions for employee benefits and other items; and

(f) Components of net assets/equity are disaggregated into contributed capital, accumulated comprehensive revenue and expense, and any reserves.

95. **When an entity has no share capital, it shall disclose sub-classifications of net assets/equity, either on the face of the statement of financial position or in the notes, showing separately:**

(a) **Contributed capital, being the cumulative total at the reporting date of contributions from owners, less distributions to owners;**

(b) **Accumulated comprehensive revenue and expense;**

(c) **Reserves, including a description of the nature and purpose of each reserve within net assets/equity; and**

(d) **Minority interests.**

*95A. **If an entity has reclassified:**

(a) **A puttable financial instrument classified as an equity instrument; or**

(b) **An instrument that imposes on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and is classified as an equity instrument;**

between financial liabilities and net assets/equity, it shall disclose the amount reclassified into and out of each category (financial liabilities or net assets/equity), and the timing and reason for that reclassification.

96. Many entities will not have share capital, but the entity will be controlled exclusively by another public benefit entity. The nature of the controlling entity's interest in the net assets/equity of the entity is likely to be a combination of contributed capital and the aggregate of the entity's accumulated comprehensive revenue and expense and reserves that reflect the net assets/equity attributable to the entity's operations.

97. In some cases, there may be a minority interest in the net assets/equity of the entity. For example, at the whole-of-government level, the economic entity may include a for-profit entity that has been partly privatised. Accordingly, there may be private shareholders who have a financial interest in the net assets/equity of the entity.

98. **When an entity has share capital, in addition to the disclosures in paragraph 95, it shall disclose the following, either on the face of the statement of financial position or in the notes:**

(a) **For each class of share capital:**

(i) **The number of shares authorised;**

(ii) **The number of shares issued and fully paid, and the number issued but not fully paid;**

(iii) **Par value per share, or that the shares have no par value;**

(iv) **A reconciliation of the number of shares outstanding at the beginning and at the end of the year;**

(v) **The rights, preferences and restrictions attaching to that class, including restrictions on the distribution of dividends and the repayment of capital;**

(vi) **Shares in the entity held by the entity or by its controlled entities or associates; and**

(vii) **Shares reserved for issue under options and contracts for the sale of shares, including the terms and amounts; and**

(b) **A description of the nature and purpose of each reserve within net assets/equity.**

Statement of Comprehensive Revenue and Expense

98.1 **The statement of comprehensive revenue and expense shall present, in addition to the surplus or deficit and other comprehensive revenue and expense sections:**

(a) **Surplus or deficit;**

(b) **Total other comprehensive revenue and expense;**

(c) **Comprehensive revenue and expense for the period, being the total of surplus or deficit and other comprehensive revenue and expense.**

If an entity presents a separate statement of financial performance it does not present the surplus or deficit section in the statement presenting comprehensive revenue and expense.

98.2 **An entity shall present the following items in the statements of comprehensive revenue and expense as allocations for the period:**

(a) **Surplus or deficit for the period attributable to:**

(i) **Minority interests, and**

(ii) **Owners of the controlling entity.**

(b) **Total comprehensive revenue and expense for the period attributable to:**

(i) **Minority interests, and**

(ii) **Owners of the controlling entity.**

If an entity presents surplus or deficit in a separate statement it shall present (a) in that statement.

98.3 **Additional line items, headings, and subtotals shall be presented on the face of the statement(s) of comprehensive revenue and expense when such presentation is relevant to an understanding of the entity's financial performance.**

98.4 Because the effects of an entity's various activities, transactions, and other events differ in terms of their impact on its ability to meet its service delivery obligations, disclosing the components of financial performance assists in an understanding of the financial performance achieved and in making projections of future results. Additional line items are included on the face of the statement of comprehensive revenue and expense, and the descriptions used and the ordering of items are amended when this is necessary to explain the elements of performance. Factors to be considered include materiality and the nature and function of the components of revenue and expenses. Revenue and expense items are not offset unless the criteria in paragraph 48 are met.

Surplus or Deficit for the Period

99. **All items of revenue and expense recognised in a period shall be included in surplus or deficit, unless a PBE Standard requires otherwise.**

99.1 As a minimum, the surplus or deficit section of the statement of comprehensive revenue and expense shall include line items that present the following amounts for the period:

(a) Revenue;

(b) Finance costs;

(c) Share of the surplus or deficit of associates and joint ventures accounted for using the equity method;

(d) Tax expense;

(e) A single amount comprising the total of the discontinued operations (see PBE IFRS 5); and

(f) Surplus or deficit

100–103. [Not used.]

Other Comprehensive Revenue and Expense for the Period

103.1 **The other comprehensive revenue and expense section shall present line items for amounts of other comprehensive revenue and expense in the period, classified by nature (including share of the other comprehensive revenue and expense of associates and joint ventures accounted for using the equity method).**

*103.2 **An entity shall disclose the amount of income tax relating to each item of other comprehensive revenue and expense, including reclassification adjustments, either in the statement of other comprehensive revenue and expense or in the notes.**

103.3 An entity may present items of other comprehensive revenue and expense either:

(a) Net of related tax effects; or

(b) Before related tax effects with one amount shown for the aggregate amount of income tax relating to those items.

*103.4 **An entity shall disclose reclassification adjustments relating to components of other comprehensive revenue and expense.**

103.5 Other PBE Standards specify whether and when amounts previously recognised in other comprehensive revenue and expense are reclassified to surplus or deficit. Such reclassifications are referred to in this Standard as reclassification adjustments. A reclassification adjustment is included with the related component of other comprehensive revenue and expense in the period that the adjustment is reclassified to surplus or deficit. For example, gains realised on the disposal of available-for-sale financial assets are included in surplus or deficit of the current period. These amounts may have been recognised in other comprehensive revenue and expense as unrealised gains in the current or previous periods. Those unrealised gains must be deducted from other comprehensive revenue and expense in the period in which the realised gains are reclassified to surplus or deficit to avoid including them in total comprehensive revenue and expense twice.

*103.6 An entity may present reclassification adjustments in the statement(s) of comprehensive revenue and expense or in the notes. An entity presenting reclassification adjustments in the notes presents the items of other comprehensive revenue and expense after any related reclassification adjustments.

103.7 Reclassification adjustments arise, for example, on disposal of a foreign operation (see PBE IPSAS 4), on derecognition of available-for-sale financial assets (see PBE IPSAS 29) and when a hedged forecast transaction affects surplus or deficit (see paragraph 111 of PBE IPSAS 29 in relation to cash flow hedges).

103.8 Reclassification adjustments do not arise on changes in revaluation surplus recognised in accordance with PBE IPSAS 17 or PBE IPSAS 31 or on remeasurements of defined benefit plans recognised in accordance with PBE IPSAS 25. These components are recognised in other comprehensive revenue and expense and are not reclassified to surplus or deficit in subsequent periods. Changes in revaluation surplus may be transferred to accumulated comprehensive revenue and expense in subsequent periods as the asset is used or when it is derecognised (see PBE IPSAS 17 and PBE IPSAS 31).

104–105. [Not used.]

Information to be Presented either on the Face of the Statement of Comprehensive Revenue and Expense or in the Notes

106. **When items of revenue and expense are material, their nature and amount shall be disclosed separately.**

107. Circumstances that would give rise to the separate disclosure of items of revenue and expense include:

(a) Write-downs of inventories to net realisable value or of property, plant, and equipment to recoverable amount or recoverable service amount as appropriate, as well as reversals of such write-downs;

(b) Restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;

(c) Disposals of items of property, plant, and equipment;

(d) Privatisations or other disposals of investments;

(e) Discontinued operations;

(f) Litigation settlements; and

(g) Other reversals of provisions.

108. **An entity shall present, either on the face of the statement of comprehensive revenue and expense or in the notes, a sub-classification of total revenue, classified in a manner appropriate to the entity's operations.**

109. **An entity shall present, either on the face of the statement of comprehensive revenue and expense or in the notes, an analysis of expenses using a classification based on either the nature of expenses or their function within the entity, whichever provides information that is reliable and more relevant.**

110. Entities are encouraged to present the analysis in paragraph 109 on the face of the statement of comprehensive revenue and expense.

111. Expenses are sub-classified to highlight the costs and cost recoveries of particular programmes, activities, or other relevant segments of the reporting entity. This analysis is provided in one of two ways.

112. The first form of analysis is the nature of expense method. Expenses are aggregated in the statement of comprehensive revenue and expense according to their nature (for example, depreciation, purchases of materials, transport costs, employee benefits, and advertising costs), and are not reallocated among various functions within the entity. This method may be simple to apply because no allocations of expenses to functional classifications are necessary. An example of a classification using the nature of expense method is as follows:

Revenue		X
Employee benefits costs	X	
Depreciation and amortisation expense	X	
Other expenses	X	
Total expenses		(X)
Surplus		X

113. The second form of analysis is the function of expense method and classifies expenses according to the programme or purpose for which they were made. This method can provide more relevant information to users than the classification of expenses by nature, but allocating costs to functions may require arbitrary allocations and involves considerable judgement. An example of a classification using the function of expense method is as follows:

Revenue	X
Expenses:	
Health expenses	(X)
Education expenses	(X)
Other expenses	(X)
Surplus	X

114. The expenses associated with the main functions undertaken by the entity are shown separately. In this example, the entity has functions relating to the provision of health and education services. The entity would present expense line items for each of these functions.

*115. **Entities classifying expenses by function shall disclose additional information on the nature of expenses, including depreciation and amortisation expense and employee benefits expense.**

116. The choice between the function of expense method and the nature of expense method depends on historical and regulatory factors and the nature of the entity. Both methods provide an indication of those costs that might vary, directly or indirectly, with the outputs of the entity. Because each method of presentation has its merits for different types of entities, this Standard requires management to select the most relevant and reliable presentation. However, because information on the nature of expenses is useful in predicting future cash flows, additional disclosure is required when the function of expense classification is used. In paragraph 115, employee benefits has the same meaning as in PBE IPSAS 25 *Employee Benefits*.

*116.1 **An entity shall disclose fees to each auditor or reviewer, including any network firm, separately for:**

(a) **The audit or review of the financial statements; and**

(b) **All other services performed during the reporting period.**

*116.2 **To comply with paragraph 116.1 above, an entity shall describe the nature of other services.**

117. **When an entity provides a dividend or similar distribution to its owners and has share capital, it shall disclose, either on the face of the statement of comprehensive revenue and expense or the statement of changes in net assets/equity, or in the notes, the amount of dividends or similar distributions recognised as distributions to owners during the period, and the related amount per share.**

RDR 117.1 **A Tier 2 entity is not required to disclose the related amount per share of dividends or similar distributions recognised as distributions to owners during the period.**

Statement of Changes in Net Assets/Equity

118. **An entity shall present a statement of changes in net assets/equity showing on the face of the statement:**

(a) **Total comprehensive revenue and expense for the period showing separately the total amounts attributable to owners of the controlling entity and to minority interests; and**

(b) **For each component of net assets/equity separately disclosed, the effects of changes in accounting policies and corrections of errors recognised in accordance with PBE IPSAS 3.**

119. **An entity shall also present, either on the face of the statement of changes in net assets/equity or in the notes:**

(a) **The amounts of transactions with owners acting in their capacity as owners, showing separately distributions to owners and contributions by owners;**

(b) **The balance of accumulated comprehensive revenue and expense at the beginning of the period and at the reporting date, and the changes during the period; and**

(c) **To the extent that components of net assets/equity are separately disclosed, a reconciliation between the carrying amount of each component of net assets/equity at the beginning and the end of the period, separately disclosing each change.**

120. Changes in an entity's net assets/equity between two reporting dates reflect the increase or decrease in its net assets during the period.

121. The overall change in net assets/equity during a period represents the total amount of comprehensive revenue and expense for the period together with any contributions by, and distributions to, owners in their capacity as owners.

122. Contributions by, and distributions to, owners include transfers between two entities within an economic entity (for example, a transfer from a government, acting in its capacity as owner, to a government department). Contributions by owners, in their capacity as owners, to controlled entities are recognised as a direct adjustment to net assets/equity only where they explicitly give rise to residual interests in the entity in the form of rights to net assets/equity.

123. [Not used.]

124. PBE IPSAS 3 requires retrospective adjustments to reflect changes in accounting policies, to the extent practicable, except when the transitional provisions in another PBE Standard require otherwise. PBE IPSAS 3 also requires that restatements to correct errors are made retrospectively, to the extent practicable. Retrospective adjustments and retrospective restatements are made to the balance of accumulated comprehensive revenue and expense, except when a PBE Standard requires retrospective adjustment of another component of net assets/equity. Paragraph 118(b) requires disclosure in the statement of changes in net assets/equity of the total adjustment to each component of net assets/equity separately disclosed resulting, separately, from changes in accounting policies and from corrections of errors. These adjustments are disclosed for each prior period and the beginning of the period.

125. The requirements in paragraphs 118 and 119 may be met by using a columnar format that reconciles the opening and closing balances of each element within net assets/equity. An alternative is to present only the items set out in paragraph 118 in the statement of changes in net assets/equity. Under this approach, the items described in paragraph 119 are shown in the notes.

Cash Flow Statement

126. Cash flow information provides users of financial statements with a basis to assess (a) the ability of the entity to generate cash and cash equivalents, and (b) the needs of the entity to utilise those cash flows. PBE IPSAS 2 sets out requirements for the presentation of the cash flow statement and related disclosures.

Notes

Structure

127. **The notes shall:**

   (a) **Present information about the basis of preparation of the financial statements and the specific accounting policies used, in accordance with paragraphs 132–139;**

   (b) **Disclose the information required by PBE Standards that is not presented on the face of the statement of financial position, statement of comprehensive revenue and expense, statement of changes in net assets/equity, or cash flow statement; and**

   (c) **Provide additional information that is not presented on the face of the statement of financial position, statement of comprehensive revenue and expense, statement of changes in net assets/equity, or cash flow statement, but that is relevant to an understanding of any of them.**

128. **Notes shall, as far as practicable, be presented in a systematic manner. Each item on the face of the statement of financial position, statement of comprehensive revenue and expense, statement of changes in net assets/equity, and cash flow statement shall be cross-referenced to any related information in the notes.**

129. Notes are normally presented in the following order, which assists users in understanding the financial statements and comparing them with financial statements of other entities:

   (a) A statement of compliance with PBE Standards (see paragraph 28);

   (b) A summary of significant accounting policies applied (see paragraph 132);

   (c) Supporting information for items presented on the face of the statement of financial position, statement of comprehensive revenue and expense, statement of changes in net assets/equity, or cash flow statement, in the order in which each statement and each line item is presented; and

   (d) Other disclosures, including:

      (i) Contingent liabilities (see PBE IPSAS 19), and unrecognised contractual commitments; and

      (ii) Non-financial disclosures, e.g., the entity's financial risk management objectives and policies (see PBE IPSAS 30).

130. In some circumstances, it may be necessary or desirable to vary the ordering of specific items within the notes. For example, information on changes in fair value recognised in surplus or deficit may be combined with information on maturities of financial instruments, although the former disclosures relate to the statement of comprehensive revenue and expense and the latter relate to the statement of financial position. Nevertheless, a systematic structure for the notes is retained as far as practicable.

131. Notes providing information about the basis of preparation of the financial statements and specific accounting policies may be presented as a separate component of the financial statements.

Disclosure of Accounting Policies

132. **An entity shall disclose in the summary of significant accounting policies:**

   (a) **The measurement basis (or bases) used in preparing the financial statements;**

   (b) **The extent to which the entity has applied any transitional provisions in any PBE Standard; and**

   (c) **The other accounting policies used that are relevant to an understanding of the financial statements.**

133. It is important for users to be informed of the measurement basis or bases used in the financial statements (for example, historical cost, current cost, net realisable value, fair value, recoverable amount, or recoverable service amount), because the basis on which the financial statements are prepared significantly affects their analysis. When more than one measurement basis is used in the financial statements, for example when particular classes of assets are revalued, it is sufficient to provide an indication of the categories of assets and liabilities to which each measurement basis is applied.

134. In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events, and conditions are reflected in the reported financial performance and financial position. Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in PBE Standards. An example is disclosure of whether a venturer recognises its interest in a jointly controlled entity using proportionate consolidation or the equity method (see PBE IPSAS 8 *Interests in Joint Ventures*). Some PBE Standards specifically require disclosure of particular accounting policies, including choices made by management between different policies allowed in those Standards. For example, PBE IPSAS 17 requires disclosure of the measurement bases used for classes of property, plant, and equipment. PBE IPSAS 5 *Borrowing Costs* requires disclosure of whether borrowing costs are recognised immediately as an expense, or capitalised as part of the cost of qualifying assets.

135. Each entity considers the nature of its operations and the policies that the users of its financial statements would expect to be disclosed for that type of entity. For example, entities would be expected to disclose the accounting policies for recognition of taxes, donations, and other forms of non-exchange revenue. When an entity has significant foreign operations or transactions in foreign currencies, disclosure of accounting policies for the recognition of foreign exchange gains and losses would be expected. When entity combinations have occurred, the policies used for measuring goodwill and minority interest are disclosed.

136. An accounting policy may be significant because of the nature of the entity's operation, even if amounts for current and prior periods are not material. It is also appropriate to disclose each significant accounting policy that is not specifically required by PBE Standards, but is selected and applied in accordance with PBE IPSAS 3.

137. **An entity shall disclose, in the summary of significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 140), management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements.**

138. In the process of applying the entity's accounting policies, management makes various judgements, apart from those involving estimations, that can significantly affect the amounts recognised in the financial statements. For example, management makes judgements in determining:

- Whether assets are investment properties;
- Whether agreements for the provision of goods and/or services that involve the use of dedicated assets are leases;
- Whether, in substance, particular sales of goods are financing arrangements and therefore do not give rise to revenue; and
- Whether the substance of the relationship between the reporting entity and other entities indicates that these other entities are controlled by the reporting entity.

139. Some of the disclosures made in accordance with paragraph 137 are required by other PBE Standards. For example, PBE IPSAS 6 requires an entity to disclose the reasons why the entity's ownership interest does not constitute control, in respect of an investee that is not a controlled entity, even though more than half of its voting or potential voting power is owned directly or indirectly through controlled entities. PBE IPSAS 16 *Investment Property* requires disclosure of the criteria developed by the entity to distinguish investment property from owner-occupied property, and from property held for sale in the ordinary course of business, when classification of the property is difficult.

Key Sources of Estimation Uncertainty

140. **An entity shall disclose in the notes information about (a) the key assumptions concerning the future, and (b) other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:**

(a) **Their nature; and**

(b) **Their carrying amount as at the reporting date.**

141. Determining the carrying amounts of some assets and liabilities requires estimation of the effects of uncertain future events on those assets and liabilities at the reporting date. For example, in the absence of recently observed market prices used to measure the following assets and liabilities, future-oriented estimates are necessary to measure (a) the recoverable amount of certain classes of property, plant, and equipment, (b) the effect of technological obsolescence on inventories, and (c) provisions subject to the future outcome of litigation in progress. These estimates involve assumptions about such items as the risk adjustment to cash flows or discount rates used and future changes in prices affecting other costs.

142. The key assumptions and other key sources of estimation uncertainty disclosed in accordance with paragraph 140 relate to the estimates that require management's most difficult, subjective, or complex judgements. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increases, those judgements become more subjective and complex, and the potential for a consequential material adjustment to the carrying amounts of assets and liabilities normally increases accordingly.

143. The disclosures in paragraph 140 are not required for assets and liabilities with a significant risk that their carrying amounts might change materially within the next financial year if, at the reporting date, they are measured at fair value based on recently observed market prices (their fair values might change materially within the next financial year, but these changes would not arise from assumptions or other sources of estimation uncertainty at the reporting date).

144. The disclosures in paragraph 140 are presented in a manner that helps users of financial statements to understand the judgements management makes about the future and about other key sources of estimation uncertainty. The nature and extent of the information provided vary according to the nature of the assumption and other circumstances. Examples of the types of disclosures made are:

(a) The nature of the assumption or other estimation uncertainty;

(b) The sensitivity of carrying amounts to the methods, assumptions, and estimates underlying their calculation, including the reasons for the sensitivity;

(c) The expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected; and

(d) An explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved.

145. It is not necessary to disclose budget information or forecasts in making the disclosures in paragraph 140.

*146. When it is impracticable to disclose the extent of the possible effects of a key assumption or another key source of estimation uncertainty at the reporting date, the entity discloses that it is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the asset or liability affected. In all cases, the entity discloses the nature and carrying amount of the specific asset or liability (or class of assets or liabilities) affected by the assumption.

147. The disclosures in paragraph 137 of particular judgements management made in the process of applying the entity's accounting policies do not relate to the disclosures of key sources of estimation uncertainty in paragraph 140.

148. The disclosure of some of the key assumptions that would otherwise be required in accordance with paragraph 140 is required by other PBE Standards. For example, PBE IPSAS 19 requires disclosure, in specified circumstances, of major assumptions concerning future events affecting classes of provisions. PBE IPSAS 30 requires disclosure of significant assumptions applied in estimating fair values of financial assets and financial liabilities that are carried at fair value. PBE IPSAS 17 requires disclosure of significant assumptions applied in estimating fair values of revalued items of property, plant and equipment.

Capital

*148A. **An entity shall disclose information that enables users of its financial statements to evaluate the entity's objectives, policies, and processes for managing capital.**

148A.1 'Capital' in this context refers to the components of assets, liabilities and net assets/equity that the entity regards as capital and manages as such. For many entities, capital is the same as net assets/equity.

However for some entities, certain instruments classified as liabilities under PBE IPSAS 28 are considered to be capital.

*148B. To comply with paragraph 148A the entity discloses the following:

(a) Qualitative information about its objectives, policies, and processes for managing capital, including (but not limited to):

(i) A description of what it manages as capital;

(ii) When an entity is subject to externally imposed capital requirements, the nature of those requirements and how those requirements are incorporated into the management of capital; and

(iii) How it is meeting its objectives for managing capital.

(b) Summary quantitative data about what it manages as capital. Some entities regard some financial liabilities (e.g., some forms of subordinated debt) as part of capital. Other entities regard capital as excluding some components of equity (e.g., components arising from cash flow hedges).

(c) Any changes in (a) and (b) from the previous period.

(d) Whether during the period it complied with any externally imposed capital requirements to which it is subject.

(e) When the entity has not complied with such externally imposed capital requirements, the consequences of such non-compliance.

These disclosures shall be based on the information provided internally to the entity's key management personnel.

*148C. An entity may manage capital in a number of ways and be subject to a number of different capital requirements. For example, a conglomerate may include entities that undertake insurance activities and banking activities, and those entities may also operate in several jurisdictions. When an aggregate disclosure of capital requirements and how capital is managed would not provide useful information or distorts a financial statement user's understanding of an entity's capital resources, the entity shall disclose separate information for each capital requirement to which the entity is subject.

Puttable Financial Instruments Classified as Net Assets/Equity

*148D. **For puttable financial instruments classified as equity instruments, an entity shall disclose (to the extent not disclosed elsewhere):**

(a) **Summary quantitative data about the amount classified as net assets/equity;**

(b) **Its objectives, policies and processes for managing its obligation to repurchase or redeem the instruments when required to do so by the instrument holders, including any changes from the previous period;**

(c) **The expected cash outflow on redemption or repurchase of that class of financial instruments; and**

(d) **Information about how the expected cash outflow on redemption or repurchase was determined.**

Prospective Financial Statements

148.1 **Where an entity has published general purpose prospective financial statements for the period of the financial statements, the entity shall present a comparison of the prospective financial statements with the historical financial statements being reported. Explanations for major variances shall be given.**

148.2 PBE FRS 42 *Prospective Financial Statements* defines general purpose prospective financial statements. Legislative or other requirements may require a comparison with originally published information, the most recently published information, or both.

148.3 Comparison of prospective financial statements with actual financial results is an essential element of accountability. In the case of issuers a comparison of actual financial results against the originally published statements is important because it provides users with a comparison of actual performance with the projected performance at the time the entity raised funds. In the case of other entities, comparisons between projected performance and actual performance for a period are a means of demonstrating accountability for the resources used and the financial management of assets and liabilities. Some entities provide long-term prospective financial statements which are updated annually, prior to the beginning of the year. In such cases a comparison of actual financial results with the most recent prospective financial statements published prior to the beginning of the period is generally relevant. Where information is revised during the course of a year, the reasons for revising the information and an explanation of the differences between the originally published prospective financial statements and the historical financial statements should be given.

Other Disclosures

*149. **An entity shall disclose in the notes:**

(a) **The amount of dividends, or similar distributions, proposed or declared before the financial statements were authorised for issue, but not recognised as a distribution to owners during the period, and the related amount per share; and**

(b) **The amount of any cumulative preference dividends, or similar distributions, not recognised.**

*150. **An entity shall disclose the following, if not disclosed elsewhere in information published with the financial statements:**

(a) **The domicile and legal form of the entity, and the jurisdiction within which it operates;**

(b) **A description of the nature of the entity's operations and principal activities;**

(c) **A reference to the relevant legislation governing the entity's operations;**

(d) **The name of the controlling entity and the ultimate controlling entity of the economic entity (where applicable); and**

(e) **If it is a limited life entity, information regarding the length of its life.**

Statement of Service Performance

150.1 **Where a statement of service performance is presented it shall describe and disclose the outputs of an entity. Similar individual outputs may be aggregated.**

150.2 This Standard refers to the statement in paragraph 150.1 as a "statement of service performance". The statement might, however, be differently named in legislation. The aim of such statements, by whatever name called, remains the providing of:

(a) Narrative and statistics on the entity's performance in supplying goods and services; and

(b) Information on the effects on the community of the entity's existence and operations.

150.3 An entity not required by legislation to prepare a statement of service performance is strongly encouraged to include a statement of service performance in its financial statements where:

(a) The entity receives significant revenue from non-exchange transactions intended to benefit third parties; or

(b) The entity has non-financial objectives of such importance that non-financial performance reporting is significant to users of the financial statements.

150.4 The elements of service performance are inputs, outputs and outcomes. Where relevant and appropriate for users of the entity's financial report, each output disclosed in the statement of service performance is to be described in terms of the output's:

(a) Quantity;

(b) Quality;

(c) Time; and

(d) Location.

The cost of each output is to be described and disclosed.

150.5 The information used to describe service performance is to be selected so as to provide a complete description of delivery of each output (or aggregation of outputs) reported, but without undue emphasis on easily measured dimensions, and without resulting in an overload of only partially relevant statistics.

150.6 For each output disclosed in a statement of service performance, where practical and appropriate, the outcome(s) to which the output is intended to contribute is to be disclosed.

150.7 The statement of service performance shall present both projected service performance and actual service performance.

150.8 Projected service performance is described by presenting projected outputs at the beginning of the period which an entity aimed to produce by the end of the period. These projected outputs will often be derived from the annual or corporate plan.

150.9 To report the degree of success in achieving objectives, it is necessary to present both projected and actual results together with full disclosures of any changes in objectives during the period.

150.10 Actual and projected service performance are to be reported consistently with one another. The information is to be sufficiently specific for performance to be assessed.

Transitional Provisions

151–152. [Not used.]

Effective Date

153–154. [Not used.]

154.1 **A public sector public benefit entity shall apply this Standard for annual financial statements covering periods beginning on or after 1 July 2014. Earlier application is not permitted.**

Appendix A

Qualitative Characteristics of Financial Reporting

This Appendix is an integral part of PBE IPSAS 1.

Paragraphs 24 to 46 of the PBE *Framework* set out the qualitative characteristics of financial reporting for PBEs.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, PBE IPSAS 1.

BC1. The New Zealand Accounting Standards Board (NZASB) has modified IPSAS 1 *Presentation of Financial Statements* for application by Tier 1 and Tier 2 public benefit entities. Where applicable, disclosure concessions have been identified for Tier 2 entities and the language generalised for use by public benefit entities. The NZASB considered that the requirements of IPSAS 1 are generally appropriate for application by public benefit entities.

Definition of Revenue

BC2. PBE IPSAS 1 contains a broad definition of the term “revenue” which encompasses gains. The NZASB agreed that it was appropriate to adopt the same definition of revenue in PBE Standards as that used in IPSASs. The NZASB noted that the Public Benefit Entities’ *Framework* (PBE *Framework*) will continue to use the term “income” as the overarching term given that the PBE *Framework* is intended to be a transitional framework, pending the development of a conceptual framework by the IPSASB.

Service Performance Reporting

BC3. PBE IPSAS 1 includes non-integral implementation guidance on service performance reporting. This guidance is based on that previously set out in Technical Practice Aid 9 *Service Performance Reporting* (New Zealand Institute of Chartered Accountants, 2007) (TPA-9). The NZASB noted that although TPA-9 was previously published in the handbook of Applicable Financial Reporting Standards it did not have authoritative support.

BC4. The NZASB agreed, as a short-term measure pending activation of a new project on performance reporting, to include guidance based on TPA-9 as non-integral implementation guidance accompanying PBE IPSAS 1. In developing guidance to be incorporated in a standard, the NZASB agreed that the guidance should be appropriate for application by both public sector and not-for-profit (NFPs) entities. TPA-9 was focused on central and local government. In giving effect to this decision, the Board agreed that the guidance should acknowledge that NFPs may be providing goods and services on behalf of others or in order to further their own objectives and that the circumstances will determine the nature of their accountability to external parties.

Other Comprehensive Revenue and Expense

BC5. The NZASB has modified PBE IPSAS 1 to require the presentation of a statement of comprehensive revenue and expense. The NZASB considered feedback from constituents recommending this change. It also noted that this modification continues current practice and separates all revenue and expenses from transactions with owners in their capacity as owners.

Appendix B

Illustrative Financial Statements

This guidance accompanies, but is not part of, PBE IPSAS 1.

B1. This Standard sets out the components of financial statements and minimum requirements for disclosure on the face of the statement of financial position and the statement of comprehensive revenue and expense, as well as for the presentation of changes in net assets/equity. It also describes further items that may be presented either on the face of the relevant financial statement or in the notes. This guidance provides simple examples of the ways in which the requirements of the Standard for the presentation of the statement of financial position, statement of comprehensive revenue and expense, and statement of changes in net assets/equity might be met. The order of presentation and the descriptions used for line items should be changed when necessary in order to achieve a fair presentation in each entity's particular circumstances. For example, line items of a public sector entity such as a defence department are likely to be significantly different from those for a central bank.

B2. The illustrative statement of financial position shows one way in which a statement of financial position distinguishing between current and non-current items may be presented. Other formats may be equally appropriate, provided the distinction is clear.

B3. The financial statements have been prepared for a central government and the statement of comprehensive revenue and expense (by function) illustrates the functions of government classifications used in the Government Finance Statistics. These functional classifications are unlikely to apply to all public sector entities. Refer to this Standard for an example of more generic functional classifications for other public sector entities.

B4. The examples are not intended to illustrate all aspects of PBE Standards. Nor do they comprise a complete set of financial statements, which would also include a cash flow statement, a summary of significant accounting policies, and other explanatory notes.

Public Sector Entity—Statement of Accounting Policies (Extract)

Reporting Entity

These financial statements are for a public sector entity (central government of Country A). The financial statements encompass the reporting entity as specified in the relevant legislation (Public Finance Act 20XX).

Basis of Preparation

The financial statements comply with Public Benefit Entity Standards. The measurement base applied is historical cost adjusted for revaluations of assets.

The financial statements have been prepared on a going concern basis, and the accounting policies have been applied consistently throughout the period.

Public Sector Entity—Statement of Financial Position

As at June 30 20X2

(in thousands of currency units)

	20X2	20X1
ASSETS		
Current assets		
Cash and cash equivalents	X	X
Receivables	X	X
Inventories	X	X
Prepayments	X	X
Other current assets	X	X
	X	X
Non-current assets		
Receivables	X	X
Investments in associates	X	X
Other financial assets	X	X
Infrastructure, plant and equipment	X	X
Land and buildings	X	X
Intangible assets	X	X
Other non-financial assets	X	X
	X	X
Total assets	X	X
LIABILITIES		
Current liabilities		
Payables	X	X
Short-term borrowings	X	X
Current portion of long-term borrowings	X	X
Short-term provisions	X	X
Employee benefits	X	X
Superannuation	X	X
	X	X
Non-current liabilities		
Payables	X	X
Long-term borrowings	X	X
Long-term provisions	X	X
Employee benefits	X	X
Superannuation	X	X
	X	X
Total liabilities	X	X
Net assets	X	X
NET ASSETS/EQUITY		
Capital contributed by		
Other government entities	X	X
Reserves	X	X
Accumulated comprehensive revenue and expense	X	X
Minority interest	X	X
Total net assets/equity	X	X

Public Sector Entity—Statement of Comprehensive Revenue and Expense for the Year Ended June 30 20X2

(Illustrating the Classification of Expenses by Function)

(in thousands of currency units)

	20X2	20X1
Revenue		
Taxes	X	X
Fees, fines, penalties, and licenses	X	X
Revenue from exchange transactions	X	X
Transfers from other government entities	X	X
Other revenue	X	X
Total revenue	X	X
Expenses		
General public services	(X)	(X)
Defence	(X)	(X)
Public order and safety	(X)	(X)
Education	(X)	(X)
Health	(X)	(X)
Social protection	(X)	(X)
Housing and community amenities	(X)	(X)
Recreational, cultural, and religion	(X)	(X)
Economic affairs	(X)	(X)
Environmental protection	(X)	(X)
Other expenses	(X)	(X)
Finance costs	(X)	(X)
Total expenses	(X)	(X)
Share of surplus/(deficit) of associates[1]	X	X
Surplus/(deficit) for the period from continuing operations	X	X
Loss for the period from discontinued operations	–	(X)
Surplus/(deficit) for the period	X	X
Other comprehensive revenue and expense:		
Gain on property revaluation	X	X
Loss on revaluation of investments	(X)	(X)
Exchange differences on translating foreign operations	(X)	(X)
Other comprehensive revenue and expense for the period	(X)	(X)
Total comprehensive revenue and expense for the period	X	X

1 This means the share of associates' surplus/(deficit) attributable to owners of the associates, i.e., it is after tax and minority interests in the associates.

	20X2	20X1
Surplus/(deficit) attributable to:		
Owners of the controlling entity	X	X
Minority interest	X	X
	X	X
Total comprehensive revenue and expense attributable to:		
Owners of the controlling entity	X	X
Minority interest	X	X
	X	X

Public Sector Entity—Statement of Comprehensive Revenue and Expense for the Year Ended June 30 20X2

(Illustrating the Classification of Expenses by Nature)

(in thousands of currency units)

	20X2	20X1
Revenue		
Taxes	X	X
Fees, fines, penalties, and licenses	X	X
Revenue from exchange transactions	X	X
Transfers from other government entities	X	X
Other revenue	X	X
Total Revenue	X	X
Expenses		
Wages, salaries, and employee benefits	(X)	(X)
Grants and other transfer payments	(X)	(X)
Supplies and consumables used	(X)	(X)
Depreciation and amortisation expense	(X)	(X)
Impairment of property, plant, and equipment[2]	(X)	(X)
Other expenses	(X)	(X)
Finance costs	(X)	(X)
Total Expenses	(X)	(X)
Share of surplus/(deficit) of associates	X	X
Surplus/(deficit) for the period from continuing operations	X	X
Loss for the period from discontinued operations	–	(X)
Surplus/(deficit) for the period	X	X
Other comprehensive revenue and expense:		
Gain on property revaluation	X	X
Loss on revaluation of investments	(X)	(X)
Exchange differences on translating foreign operations	(X)	(X)
Other comprehensive revenue and expense for the period	(X)	(X)
Total comprehensive revenue and expense for the period	X	X
Surplus/(deficit) attributable to:		
Owners of the controlling entity	X	X
Minority interest	X	X
	X	X
Total comprehensive revenue and expense attributable to:		
Owners of the controlling entity	X	X
Minority interest	X	X
	X	X

[2] In a statement of comprehensive revenue and expense in which expenses are classified by nature, an impairment of property, plant and equipment is shown as a separate line item. By contrast, if expenses are classified by function, the impairment is included in the function(s) to which it relates.

Public Sector Entity—Statement of Changes in Net Assets/Equity for the Year Ended June 30 20X2

(in thousands of currency units)	Attributable to owners of the controlling entity				Minority interest	Total net assets/ equity
	Contributed Capital	**Reserves[3]**	**Accumulated Comprehensive Revenue and Expense**	**Total**		
Balance at December 31, 20X0	X	X	X	X	X	X
Changes in accounting policy			(X)	(X)	(X)	(X)
Restated balance	X	X	X	X	X	X
Changes in net assets/equity for 20X1						
Transfers		X	(X)			
Total comprehensive revenue and expense for the period		X	X	X	X	X
Balance at June 30, 20X1 carried forward	X	X	X	X	X	X
Balance at June 30, 20X1 brought forward	X	X	X	X	X	X
Changes in net assets/equity for 20X2						
Transfers		X	(X)			
Total comprehensive revenue and expense for the period		X	(X)	(X)	(X)	(X)
Balance at June 30, 20X2	X	X	X	X	X	X

3 Reserves are analysed by each reserve, if material.

Appendix C

Service Performance Reporting

This guidance accompanies, but is not part of, PBE IPSAS 1.

Introduction

C1. This guidance discusses matters to be considered in reporting service performance in a statement of service performance. Some entities are required by legislation or their founding documents to produce a statement of service performance or provide service performance information. Although a statement of service performance is only one way in which an entity tells its performance story, the statement of service performance should be consistent with, and link coherently to, other qualitative and quantitative information in an entity's general purpose financial report (for example, the annual report). The statement of service performance needs to be read in the context of all the performance information presented by an entity in a general purpose financial report. If a statement of service performance is in relation to a specific area of activity rather than an entity as a whole, the service performance information should still be linked to the financial statements of the entity or entities concerned.

C2. The way in which entities choose to present information about service performance can vary widely, as can the nature of the outputs delivered by an entity. The way in which an output is specified and measured, and the way in which service delivery is managed, will vary depending on the type of output involved. The specification and measurement of outputs with a high degree of certainty is likely to be more straightforward than specification and measurement of outputs with a high degree of variability. Some service delivery processes allow little room for discretion whilst others may be complex and variable in nature. One size does not fit all.

C3. Although this guidance focuses on the statement of service performance, it may also assist entities presenting other performance information in a general purpose financial report. It is not intended to constrain developments in performance reporting.

Service Performance Requirements in PBE Standards

PBE *Framework*

C4. The PBE *Framework* acknowledges that an entity's financial report may include financial and non-financial statements and that an entity may use both financial and non-financial statements and information in demonstrating accountability for a range of obligations, including service performance obligations. The PBE *Framework* notes that demonstrating accountability requires the identification of objectives and targets and the recognition, measurement and disclosure of actual achievement against those objectives and targets (both financial and non-financial).

C5. Information presented in non-financial information must have regard to the qualitative characteristics (and constraints on those characteristics) discussed in the PBE *Framework*. The qualitative characteristics are understandability, relevance, reliability and comparability. The constraints on relevant and reliable information are materiality and the balance between costs and benefits.

PBE IPSAS 1 *Presentation of Financial Statements*

C6. This Standard establishes requirements in relation to the presentation of financial statements and non-financial statements. Some entities are required by legislation to prepare a statement of service performance. This Standard encourages other entities to prepare a statement of service performance when:

(a) The entity receives significant revenue intended to benefit third parties without giving reciprocal benefit or consideration to the party providing the revenue; or

(b) The entity has non-financial objectives of such importance that non-financial performance reporting is significant to users of the financial statements.

C7. An entity presenting a statement of service performance in accordance with this Standard must describe and disclose the outputs of an entity and report on projected and actual service performance.

Rationale for Service Performance Reporting

C8. The information in annual reports should allow users (such as donors, service recipients, ratepayers, the community, and the wider public) to assess how a public benefit entity has performed in relation to its stewardship of assets, and the efficiency, effectiveness, and cost-effectiveness of operations.

C9. By definition, public benefit entities have a primary objective of providing goods or services for community or social benefit. The entity's annual report should therefore contain information on actual service delivery, and where relevant, a comparison of actual and forecast service delivery.

C10. Performance measures can have a major influence on the performance of an entity, and on the performance, motivation and focus of individuals. Quite simply, what gets measured, gets done. What is not measured is likely to receive less attention. It is particularly important, therefore, that performance measures are chosen with care and are well-specified.

Elements of Service Performance Reporting

C11. The elements of service performance are inputs, outputs and outcomes. Outcomes provide the rationale for output delivery. Information on the links between outcomes and outputs is essential contextual information for service performance reporting. Although other mechanisms such as regulations, transfers of resources between groups in the community, and ownership of assets may be used to achieve or influence outcomes, the delivery of outputs is the most common way in which public benefit entities seek to achieve or influence outcomes. The statement of service performance provides information on the use of inputs to produce outputs, the delivery of outputs and the way in which those outputs are expected to influence outcomes.

C12. Information on the delivery of outputs is only one aspect of service performance reporting. Service performance reports should also include contextual information explaining the linkages between desired outcomes and outputs and an assessment of the contribution of outputs to outcomes. The extent to which this contextual information forms part of the statement of service performance or is provided elsewhere in a general purpose financial report is a matter for judgement. For example, an explanation of the basis on which outputs have been selected, sometimes referred to as the intervention logic, is needed to support the statement of service performance, but this information may be provided elsewhere in the same general purpose financial report as the entity's financial statements.

Accountability and Service Performance Reporting

C13. A key objective of external reporting of service performance is to strengthen accountability for delivery of outputs as specified. Accountability can be defined as "the requirement for one party to account to another party for its performance over a given period". Effective accountability requires clear specification of service performance expectations at the start of the period and the reporting of actual performance against those expectations at the end of the period.

C14. Given the difficulty of establishing causal relationships between outputs and outcomes and the range of factors that can influence outcomes, many entities are accountable, primarily or solely, for the delivery of outputs. The statement of service performance and any supporting information should clarify the nature of the entity's accountability for service performance.

Outputs as the Basis for Accountability

C15. Funders and financial supporters (including taxpayers, ratepayers and members) provide resources to public benefit entities for the supply of goods and services, either to themselves or to third parties. Funders and financial supporters are therefore interested in the quality of the goods and services produced and whether the goods and services were produced in accordance with relevant contracts or agreements. They may also be interested in whether a public benefit entity can continue to provide its current level and mix of goods and services from its existing resource base and under other scenarios. At a higher level, information on an entity's outputs helps users form an opinion on whether the entity is meeting its objectives and whether they wish to change the level of funding they provide to the entity. The users may be interested in assessing how well an entity could make use of additional resources.

C16. Information on output delivery is therefore used both to form an opinion on an entity's accountability for its obligations to deliver outputs and for making decisions about providing resources to an entity.

Defined terms

C17. The following terms are used in this guidance with the meanings specified. The legislative definitions of some terms differ from those in this guidance.

Accountability: Accountability is the requirement for one party to account to another party for its performance over a given period.

Actual performance: Actual performance is the results achieved against the performance targets or standards set at the start of the reporting period. Actual performance is also known as "performance achievement".

Appropriation: In central government, Government seeks appropriation approval from Parliament to incur output expenses. For the purposes of appropriation, similar outputs must be grouped into output classes.

Delivery entity: The delivery entity is the entity delivering the outputs.

Dimensions of performance: Dimensions of performance are the aspects or properties of performance that may be captured by a particular performance measure. They include, but are not limited to, quantity, quality, timeliness, location, and cost.

Impacts (or intermediate outcomes): Impacts are the contributions made to an outcome by a specified set of outputs. Often referred to as "intermediate outcomes", they represent the relatively immediate or direct effect on stakeholders of the entity's outputs.

Inputs: Inputs are the resources used to produce the goods and services which are the outputs of the entity.

Outcomes: Outcomes are the impacts on, or consequences for, the community resulting from the existence and operations of the entity.

Output class or group: For external reporting and appropriation purposes, individual outputs are often aggregated into output classes or groups of outputs that are similar in nature.

Outputs: Outputs are the goods and services produced by the entity.

Ownership performance: This is the performance that the owner expects of an entity. Commonly, the owner is interested in:

(a) The scope of the entity's business activities (its range of outputs);

(b) Maintaining and/or strengthening of organisational capability (physical, human and financial capital);

(c) Financial performance; and

(d) Risk management.

Performance: Performance refers to how well an entity performs against its objectives. It is a comprehensive concept, as performance can relate to a wide range of elements, such as outcomes (including impacts or other intermediate-level outcomes), outputs, inputs, and capability. Performance may also be expressed in relational terms, such as efficiency (i.e. relationship of inputs to outputs) or effectiveness (i.e. relationship of outputs to outcomes). The term "service performance" relates specifically to outputs.

Performance measures: Performance measures are the specific criteria or means used to measure performance (most commonly of output production and achievement of impacts and outcomes). They may be expressed as (but are not limited to) absolute numbers, percentages, ratios, point estimates, or ranges. They might also be qualitative in nature.

Performance targets: Performance targets are the specific levels of performance (usually relating to outputs produced and outcomes achieved) that the entity aims to meet.

Processes: Processes are the practices and methods adopted by an entity to convert inputs into outputs. Examples include:

(a) A call centre that provides information and advice; and

(b) Assembling documentation to issue a court summons.

Service performance reporting: Reporting of the performance of a delivery entity in providing specified outputs.

Stakeholders: Stakeholders are the primary users of an entity's financial and non-financial performance reports and are those to whom the entity is primarily accountable.

Inputs

C18. Examples of inputs are labour, property, plant and equipment, cash and other financial assets, and intangible assets such as intellectual property.

Outcomes

C19. The definition of outcomes in PBE IPSAS 1 (and this guidance) focuses on the impact or consequence of the existence and operations of the entity. By contrast the definition of outcomes in the Public Finance Act 1989 focuses on impacts from the community's perspective. The Public Finance Act states that an outcome "(a) means a state or condition of society, the economy, or the environment; and (b) includes a change in that state or condition."

C20. Desired outcomes provide the rationale for action and are the basis on which decisions should be made concerning the outputs as part of the range of possible interventions. Outcomes are the basis for an entity's decisions on outputs. In the case of central and local government, the government's desired outcomes also influence decisions about other policy actions. Outputs are "what" the entity delivers. Outcomes are "why" the outputs are delivered. Examples of outcomes are improving the health status of children, reducing the level of violent crime; and increasing sustainable economic growth.

C21. The distinction between outputs and outcomes is critical. If outputs and outcomes are not clearly distinguished, two problems arise. First, the relationship between the two becomes circular. Secondly, it becomes more difficult for an entity to demonstrate its service performance, because of the other factors impacting on outcomes.

Outputs

C22. All entities, regardless of the sector in which they operate, deliver outputs. Outputs, being the final goods and services of the entity, differ from inputs, outcomes, management systems, internal outputs and processes. Examples of outputs include civil defence, education and health services, law enforcement, licensing and inspection services, rubbish collection, maintenance of roads, tourism promotion, and purchase of military capability. Although some outputs are supplied solely by public sector entities others, such as education, advocacy and emergency food and shelter may be supplied by both public sector and not-for-profit entities.

C23. Outputs may vary considerably in their complexity and associated risks. Output descriptions should attempt to reflect this variation to enable readers to assess performance in relation to the level of complexity and/or risks.

Performance Targets

C24. This guidance uses the term "targets" as a broad concept which encompasses the notion of "performance standards". Performance targets describe the precise levels of performance that are to be delivered or achieved within the performance period (usually a year). They may:

(a) Specify a minimum level of performance. Performance targets that set out expected levels of performance, planned performance or minimum levels of performance may be referred to as performance standards; or

(b) Define aspirations for improvement. Performance targets may set out a commitment to achieve a specific and better quality or level of service over a specified time frame.

Processes

C25. Processes are the ways in which a wide range of inputs are selected, used and converted into outputs. Examples of processes include:

(a) Internal research that forms part of the process of preparing advice or processing a consent application. The research activity is not a final product or output in its own right. Rather, it is part of the process required to deliver the final output of advice or to approve a resource consent; and

(b) Legal services associated with translating a policy decision into draft legislation or a by-law.

C26. Processes will vary for different outputs. Since these processes are an integral and direct contribution to the delivery of final outputs, their costs should be directly attributed to the output to which they contribute.

Selection and Specification of Outputs

C27. Ultimately, the quality, integrity and value of service performance reporting rests heavily on how well outputs are specified at the start of the period. Specifying outputs involves setting out the nature of expected performance, including robust and relevant performance measures. The process, in principle, involves seven steps as illustrated below.

Step 1: Determine the underlying rationale for any proposed outputs

Ideally, the outcomes that are sought should be clear before determining what outputs may be appropriate. Key question: What is the entity trying to achieve?

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Step 2: Identify what the entity is responsible for delivering

Within the legislative mandate of the entity and any requirements specified by external parties, define the outputs that will be provided and for which the entity will be accountable. Key question: What outputs are to be delivered?

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Step 3: Develop descriptions of each of the outputs

Descriptions must be meaningful to managers and staff of the entity, elected representatives and stakeholders, as well as to relatively uninformed users of the output information, including the general public. Key question: Is the nature of the outputs clear?

⇩

Step 4: Develop performance measures for each of the outputs

Develop performance measures for each of the outputs that focus on the critical dimensions of performance. Key question: Do the performance measures cover the critical dimensions?

⇩

Step 5: Determine performance targets for each of the measures

This step involves determining performance targets for each of the output performance measures. Historical data on past performance and benchmarking information may be helpful in determining targets together with the expectations of any relevant external parties. External factors that may influence demand for each output and a realistic view of the capability of the entity are also considerations that should be taken into account. Key question: Are the performance targets clear and measurable?

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Step 6: Determine output measurement systems

This step involves developing systems for the routine measurement, recording and reporting of the entity's actual performance against each of the output performance measures and targets. Key question: Are the measurement systems in place?

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Step 7: Review the output specifications

Developing output specifications is a cyclical process. They should be reviewed at least annually and refined if necessary. Review should take account of changing requirements and priorities, from both the entity's perspective and the perspective of relevant external parties. If specifications can be made more transparent, precise and measurable then managers will obtain better information for monitoring output delivery performance. Key question: Can specifications be made more precise in order to provide better performance information?

C28. Steps 1 to 5 are discussed below.

Step 1: Determine the Underlying Rationale for Any Proposed Outputs

C29. Judgement is required to achieve an accurate, meaningful and informative specification of the activities of the entity. In particular, it is important that output specification reflects the entity's priorities and performance objectives. These priorities and performance objectives may be determined by the entity in conjunction with stakeholders, or in the case of outputs being delivered on behalf of a party external to the entity, they may be specified by the external party.

C30. In this way, output specification provides:

(a) A sound framework for accountability (for example, between Councillors and the chief executive of a local authority, between Ministers and a departmental chief executive, and between a not-for-profit entity and a funder); and

(b) A clear and unambiguous basis for assessing the performance of the chief executive and the entity overall.

C31. It is also important that the specification is relevant to the nature of the outputs being supplied. The types of outputs processed by delivery entities vary greatly in their nature and a "one size fits all" approach to output specification is, therefore, not appropriate. For example, the way in which the delivery of a claims processing service is specified and measured will be quite different from outputs that involve research or policy advice.

Step 2: Identify what the Entity is Responsible for Delivering

C32. A statement of service performance should clearly identify the reporting entity. Clear identification of the reporting entity is necessary before external outputs can be identified.

(a) In central government, external outputs are the outputs delivered by the individual department or Crown entity to a Minister.

(b) In the case of a local authority, the authority and the councillors are a single entity for the purposes of general purpose financial reporting. External outputs are those outputs delivered to parties other than the authority or the councillors. Policy advice provided to Councillors is not an external output.

(c) In the case of a charity, external outputs are those provided to beneficiaries or to other external parties.

C33. In its statement of service performance an entity reports on those outputs that it is accountable for. Where an entity is delivering outputs on behalf of, or in conjunction with, other entities, care is required in deciding which entity is accountable for reporting on the delivery of outputs. Two possible scenarios are discussed below.

C34. Where an entity has agreed to deliver outputs and then contracts with another entity for delivery of those outputs, the first entity remains accountable for delivery of the outputs and should report accordingly. In this situation, the contract or agreement between the two entities should establish accountability requirements (including performance measurement and reporting) in relation to those outputs.

C35. Where two or more entities have agreed to deliver outputs to another entity, one of the delivery entities may accept responsibility for the overall monitoring and reporting on those outputs. Such monitoring and reporting does not make that delivery entity accountable for the outputs of the other delivery entities.

Step 3: Develop Descriptions of Each of the Outputs

C36. In general, outputs are well-defined when their specifications meet the principles or criteria contained in the checklist below.

Principle	**Test**
External focus	The output describes a distinct product or service. The output is a final product or service that is delivered externally.
Controllable	Output specifications appropriately reflect the extent of control over the delivery of each output.
Comprehensive	The outputs reported in the statements of service performance incorporate all of the outputs that were delivered by the entity. This includes outputs where delivery has been subcontracted to another party. It also includes all outputs funded by parties other than ratepayers or taxpayers—for example, outputs funded through user charges. While comprehensive coverage is important, the aggregation of similar outputs is expected in most cases. This is a similar concept to the aggregation of financial elements. Aggregation should be at a level that conveys a meaningful understanding of the outputs purchased without obscuring what is being purchased and/or burying the reader in detail. Outputs should be aggregated according to the nature of the activity, not the recipient, the delivery location or the funding mechanism.
Measurable	Output specifications provide clear descriptions and standards against which actual performance can be judged.
Informative	Output descriptions are sufficient to meet the information needs of a relatively new or unfamiliar user of the information.

Step 4: Develop Performance Measures for Each of the Outputs

C37. Performance measures can be established for both outputs and outcomes. However, service performance focuses on the achievement of outputs.

C38. The principles for performance measures are the same as those for output specification discussed above.

Principle	**Test**
External focus	Performance measures should have an external focus. They should not focus on internal outputs or technical aspects of performance such as processes, plans or policies. They should measure aspects of performance that are of particular value or importance to those to whom the entity is accountable for output performance.
Controllable	Performance measures should be controllable by the entity or, at a minimum, the entity should have a reasonable level of influence over achieving the performance specified.
Comprehensive	Performance measures should be comprehensive. The performance measures should cover aspects of performance that are considered to be significant or critical by those to whom the entity is accountable for output performance.
Measurable	Performance measures should be measurable, or at least be verifiable, enabling an assessment of whether the outputs were actually delivered as specified.
Informative	Performance measures should be informative to the user.

C39. PBE IPSAS 1 requires that "Where relevant and appropriate for users of the entity's financial report, each output disclosed in the statement of service performance is to be described in terms of the output's:

(a) Quantity;

(b) Quality;

(c) Time; and

(d) Location.

The cost of each output is to be described and disclosed."

C40. Judgement is needed to determine the composition and number of performance measures. Because output performance measures will vary depending on the nature of the outputs, not all of the possible dimensions of output performance will always be relevant. For example, the location of output delivery will not be relevant for many outputs. However, where accessibility to health care is a priority, the location of output delivery is likely to be important.

C41. The concept of appropriateness can be applied in deciding which performance measures to report. Appropriateness refers to the usefulness or suitability of various aspects of the non-financial performance report. In assessing whether performance measures are appropriate, consideration is given to whether the information is relevant to the interests of users, reliable (i.e. faithfully represented, supportable, neutral, complete, and balanced), understandable, and comparable. The subject matter should be sufficiently appropriate to allow for an informed assessment of the entity's service performance.

Quantity

C42. Quantity measures describe outputs in terms of how much or how many, and require a unit of measurement to be defined, for example:

(a) The number of resource consents issued;

(b) The amount of promotional material distributed about a particular district;

(c) The number of licences issued;

(d) The metres of road surfaced or number of pot holes filled; and

(e) The number of beneficiaries to be provided with legal advice.

C43. Quantity measures should, in general, be specified for all outputs. The quantity of output being delivered usually has a direct relationship to the cost of output delivery, making quantity measures an important point of focus.

C44. Different types of outputs will have different quantity dimensions. Typically, the dimensions of quantity that output performance measures might cover include:

(a) The number of units of the output, expressed in terms such as the number of transactions, the number of construction or other projects, or the number of cases/patients; and/or

(b) The amount of the output, expressed in terms such as the timeliness or the relationship to an overall work programme (for example, for policy advice) rather than a specific number of units.

C45. Number is the most relevant dimension for output quantities where the characteristics of each unit of output, such as the time required to deliver the output, are similar. Where the characteristics are not similar, amount is a more relevant dimension for outputs such as policy advice, where different units of policy advice may differ significantly in their price, complexity, completion time, etc.

C46. More than one quantity dimension may be necessary in order to provide a complete picture of the level of the output to be delivered. For instance, if different application types require significantly different processing times, it may be appropriate to use both the estimated number of applications to be processed and the number of different types of applications.

Quality

C47. The quality of the output is a critical performance dimension for most outputs.

C48. Different types of outputs will have different quality dimensions but generally address the following attributes:

(a) The accuracy with which the output is delivered in terms of policies, professional or industry standards or criteria, direct measurements and calculations, etc;

(b) The completeness of the output; and

(c) Compliance with legal standards, government policies, technical or professional standards and entity procedures and practices.

C49. Quality is relatively easy to measure in instances where the output must meet predetermined legal requirements or criteria—for example, suppliers of drinking water must meet quality assurance requirements in drinking water standards, or applications for benefits will be assessed against predetermined eligibility criteria. In other cases it is more difficult to measure quality objectively. Quality is often a matter of professional judgement. For example, the quality of a teacher's or a doctor's performance can be assessed, but the process involves judgement more than measurement.

C50. Generally speaking, the more objective a measure is, the better it is. A hierarchy of quality measures in terms of their objectivity follows.

Level 1: Output quality is measured against an external benchmark, standard or predetermined criteria and is externally assessed—for example, compliance with safety and hygiene standards that are subject to external inspection and certification. Compliance of actions or decisions with legislation can also serve as a measure of quality that is ultimately subject to external assessment by the courts. External benchmarks are likely to be appropriate where service delivery processes are well articulated.

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Level 2: Output quality is measured against an external benchmark but is internally assessed, for example, compliance with standards set by the New Zealand Standards Authority. This approach may be suitable where service delivery processes are not well articulated or there is a degree of uncertainty in the assessment of quality.

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Level 3: Output quality is internally or externally assessed through processes such as peer review. For example, the quality of counselling services and appropriateness of treatment programmes prescribed by counsellors might be subject to peer or manager review. A measure of the quality of policy advisory outputs is often that the advice will be subject to peer review and/or managerial sign-off. In relation to the quality of emergency response services, a measure of quality may be that those services are performed in line with internal plans and procedures. These internal plans and procedures should normally be subject to external review.

C51. Examples of outputs where:

(a) Level 1 output quality measures may be appropriate include administration of transfer payments, administration of regulations, archival services, border control, collection services, financial audits, ministerial support services and transport services;

(b) Level 2 output quality measures may be appropriate because service delivery processes are not well articulated include case management, investigations, promotional services, prosecutions and teaching services. Examples where level 2 may be appropriate because of uncertainty include contingent military capabilities, employment placement services, emergency response services, patrol and surveillance, prison management/custodial services, quarantine services, residential care and reviews/audits (non-financial); and

(c) Level 3 output quality measures may be appropriate because of the degree of uncertainty associated with measurement include counselling, diplomatic representation, policy advice, research, resolution and mediation services and species recovery management.[4]

C52. Although the degree of objectivity associated with Level 1 of the hierarchy discussed above is highly desirable, it will not always be realistic or appropriate depending upon the nature of the output. Peer review quality assurance processes as described in Level 3 may be the most robust and appropriate measure of quality that is available. Some examples of quality measures are provided below.

Measures	**Examples**
Standards to be met	Minimum % of assessments accurate—i.e. comply with eligibility rules. Maximum % of appeals lodged (against applications for licences, permits or rulings) sustained. Maintenance of facilities meets standards specified in contract, subject to sample audit. Engage 75% persons living on the streets through repeated contacts and delivery of basic services. Provide referrals to housing programmes, including shelters and supportive service programmes.
Access issues	Service hours from X to Y. Number of care days available. Operate and maintain the water supply system resulting in nil loss of supply to customers.
Stakeholder focus	% of customers who rank service X or better based on independent survey against agreed criteria. Number of complaints received. Minimum % awareness achieved in target group (resulting from promotional activity).
Timing issues relating to service	Meet client's requirements, i.e. accurate and completed within agreed timeframes, as verified by subsequent audit. % of reports/letters accepted without modification.

Assessing output quality using quality assurance processes (internal and external)

C53. Measuring or assessing the quality of some outputs, especially some services, may be expensive in terms of the time and other costs associated with administering the necessary measurement systems. In these situations, specification of the output may include a quality assurance process as a proxy or substitute for directly measuring or assessing the quality of the output.

C54. There are however, a number of issues to be aware of when quality assurance processes are used as proxies for quality. For instance:

(a) The same high costs involved in directly measuring or assessing the quality of the outputs may also flow through to the quality assurance process;

(b) Peer review or sign-off by a manager, a common element of a quality assurance process, may not result in a sufficiently objective judgement of quality. External reviewers may be regarded as being more objective; and

(c) Not all quality assurance processes are robust and reliable. There may be some differences between establishing a quality assurance process and applying it consistently. Sometimes, perhaps because of other pressures, a manager or supervisor may sign-off the completion of an

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4 These examples are taken from the OECD *Outputs Manual*, Public Management Committee, Paris 2000—PUMA reference PUMA/SBO(2000)7.

output without explicitly measuring or assessing the quality of the output against the required standards.

C55. Although appropriate and useful for management purposes, internal mechanisms such as quality assurance processes should be used with care as a proxy for output-based performance measures. At most, quality assurance processes are probably best used to support other quality measures.

Assessing Output Quality Using Satisfaction Surveys

C56. Where consumer or stakeholder satisfaction is being assessed by means of a survey it is important that the survey is well designed and robust. If surveys are used they should:

(a) Be designed and conducted independently, not by the staff of the entity delivering the outputs;

(b) Have target standards which have been explicitly stated in the relevant ex ante documents such as statements of intent, Long-Term Plans and annual plans;

(c) Link specifically to the output to be delivered (particularly the process or other characteristic of the output);

(d) Make the sample size explicit (because of the influence this has on the margin of error in the survey); and

(e) Specify the criteria or targets against which satisfaction is surveyed — for example, the performance targets might be expressed in terms such as “80% of our users will rank our service as good or better, based on an independent survey against the agreed criteria.”

C57. Caution should be exercised in using satisfaction surveys in service performance reporting. Without careful design there is a risk that the results will be meaningless or misleading. For example, those refused a permit or consent are unlikely to be “satisfied” with the result even though the process followed was consistent with that specified. Conversely, people receiving a grant (for example, grants to assist in small business development) from government where the criteria have not been fully applied are likely to express significant satisfaction with the result, even if the administration of the grant was not consistent with the service performance specification.

C58. Timeliness measures may also address the hours during which the services will be available. Some examples of timeliness measures are provided below.

Measures	**Examples**
Compliance with milestones and finish dates	• Policy report on managing oil spills to be provided to the Minister by 31 March 20X1. • Minimum number of budgeting courses to be run over the next 6 months.
Compliance with response times	• Minimum number of incidents (e.g. fires, accidents, emergency calls) to be responded to within X time • Minimum number of customer complaints responded to within one working day; remainder responded to within three working days. • Minimum % applications for passports processed in 10 working days; remainder within 20 working days. • X% of fines collected within 90 days of imposition. • X% civil judgement orders served or executed within 21 days of receipt by the collections officer.
Availability of service as timeliness measure	• Telephone help line open to receive calls a minimum of x hours a day. • Monitored shipping lights will operate not less than X% of the time during the hours of darkness.

Location

C59. As noted above, the location in which a service is delivered may or may not be important. Location is likely to be an important factor for services such as health, education, border control or regional development. Such outputs may be required to be delivered in specific rural locations or urban communities. Location may be implicit (for example, elected representatives would normally want policy advice provided in the town or city where they are primarily located).

C60. Some examples of location measures are provided below.

Measures	**Examples**
Provision of accident and emergency health services	Main hospital site in City X.
Provision of police street patrol services	Main city area.

Cost

C61. Supplying outputs within the agreed or proposed cost is a key performance measure.

C62. The full cost of an output is the sum of the direct and indirect expenses on a full accrual accounting basis incurred in processing the output (i.e. consistent with GAAP). This should include an allocation of all indirect costs relevant to the delivery of outputs. For example, the cost of providing advice to Councillors and servicing Council meetings should be allocated to the outputs delivered by a local authority. In general, all costs should be allocated to outputs. In some cases there will be costs that are neither directly nor indirectly related to the delivery of outputs (for example, costs relating to a major restructuring associated with a discontinued activity). Such costs should not be allocated to outputs.

C63. Costing individual outputs is strongly encouraged. In the interests of transparency and increasing the value of reporting, disclosure of cost allocation policies and provision of costing information below the aggregated output level are recommended, as it will assist users in understanding how the cost information is determined.

Performance Measures in Ex Ante Reports

C64. Where ex ante performance reports are made available to external parties, output performance measures form part of the output descriptions in those reports. For example, statements of intent set out certain quantities and qualities of desired outputs based on the level of funding to be provided.

C65. The ex ante reports should all specify the outputs and the performance measures, and specific targets for the quantity and quality of outputs to be delivered. Where the same output performance measures apply to a number of outputs within a group of outputs, they need only be specified once.

C66. Output performance measures can have a very strong influence on how an entity will perform, as entities must monitor and report actual performance against these measures. In particular, the annual report for each entity is required to contain the same output performance measures as set out in the relevant ex ante report.

Step 5: Determine Performance Targets for Each of the Measures

C67. Targets are measured via performance indicators. Indicators can be expressed as absolute numbers, percentages or ratios and/or as point estimates or as a range.

Quantity

C68. In expressing the quantity targets for an output to be delivered by an entity, an estimate of the likely quantity to be delivered should be provided. This could be expressed as a range such as 2,200 to 2,700 licensing applications to be processed, but generally a point estimate, such as 2,500 applications, is more appropriate.

C69. There may be some situations in which the quantity of output to be delivered may not be able to be estimated with sufficient certainty at the beginning of the period. Such situations include those where:

(a) The quantity demanded is largely outside the control of the entity (although historical information should normally enable an estimate to be made);

(b) The output is new and there is little or no historical data on which to base quantity measures; or

(c) The entity is required to develop and maintain a capability to provide an output at some future time, such as an emergency response output to a natural disaster or military action. In this type of situation, some output performance measures should be used to define the characteristics of the output that the capability is intended to deliver. In such cases, the following information should be provided:

(i) An estimate (point and/or range) of the likely quantity to be delivered (an estimate of the quantity that will be sought);

(ii) The information on which the estimate is based;

(iii) The level of confidence in the estimate; and

(iv) The implication for the cost of the outputs if there is a significant increase or decrease in the quantity delivered.

C70. In these situations the quantity measures should be expressed as indicative only, with more information to be provided through reporting actual performance. The key aspect of performance in these situations is readiness to respond, not whether a response is required or not.

Quality

C71. Targets for output quality performance measures should be expressed following the approach discussed above for quantity measures. That is, quality measures and targets should provide:

(a) Brief definitions of the likely quality to be delivered. Where possible these should be based on information on previous performance and on an understanding of the implications of the current and future environment for delivery of the particular output. The definition may refer to a larger set of quality statements, such as legislative requirements or government policies; and

(b) The likely frequency with which the delivery entity will meet the quality measure(s), for example in at least 98% of cases.

Reporting Outcome Achievement in Service Performance Reporting

C72. PBE IPSAS 1 encourages entities to include information about the intended outcomes in a statement of service performance. Information on intended outcomes is required as contextual information to explain why the entity is delivering certain outputs and how the outputs are expected to influence outcomes.

C73. Users require information on desired outcomes, the linkage between those outcomes and entity's outputs, and outcome achievement. This information may be reported as additional non-financial information in the statement of service performance, elsewhere in the relevant general purpose financial report or in some other document. Where other documents provide more detailed information on the entity's strategy and the link between desired outcomes and output delivery the narrative accompanying the statement of service performance should make reference to those documents.

Intermediate Outcomes

C74. Where an entity is contributing to long-term outcomes, information on intermediate outcomes can be useful. Intermediate outcomes or impacts are the critical middle layer of any measurement framework. In the context of the State sector impacts have been described as: *"the contribution made to an outcome by a specified mix of interventions. It normally describes results that are directly attributable to the interventions of a particular agency. Measures of impact at the intermediate outcome level are the most compelling performance indicators for the State sector, as they demonstrate the change in outcome* *attributable to the specific interventions of the agency. Performance information around impacts enables Ministers and the public to determine the effectiveness of agency performance".*[5]

C75. Establishing intermediate outcomes, and linking them with outputs, allows an entity to demonstrate that it is allocating its resources in ways that are consistent with long-term desired outcomes. Intermediate outcomes can also be used to show the extent of progress in the desired direction and to indicate whether the desired long-term outcomes are likely to be achieved if activities continue. Intermediate outcomes are likely to be more specific with respect to targeted groups or in terms of their effects, and will be measurable with a greater degree of confidence.

Outcome Specification

C76. Outcomes need to be sufficiently well specified to explain the contribution that outputs or other interventions are making towards the achievement of outcomes. The following checklist may assist in the specification of outcomes for statements of service performance or other related non-financial reporting.

Outcome Specification Checklist

(a)	Is the outcome focused on a result of an action rather than the action itself (for example the impact that is sought)?
(b)	Does the outcome clearly describe the impact on the people in a specific region, community or target group?
(c)	Where there are elected representatives is the outcome something that the elected representatives believe the community values?
(d)	Does the outcome provide a clear statement of what the entity, in conjunction with other parties, is seeking to achieve?
(e)	Is the outcome part of a "hierarchy" of outcomes? If so, is this hierarchy clear?
(f)	Where the outcome focuses on specific people or groups within the community, can these people or groups be clearly identified?
(g)	Is the outcome achievable within a specified time? If so, is that timeframe specified?

Reporting issues

Key to High Quality Reporting

C77. Projected service performance and the measurement of service performance (in terms of outputs, performance measures and targets) should be clearly determined before the start of the reporting period. This requires that, in conjunction with relevant external parties, the entity has established:

(a) The desired outcomes;

(b) The outputs (as opposed to other actions) to be delivered during the year ahead;

(c) The linkages between those outputs and the desired outcome(s); and

(d) The specifications of the dimensions of performance (for example, quantity, quality, timeliness, location and cost), together with performance targets for the year ahead.

C78. Issues that may arise during the preparation of statements of service performance include:

(a) Reporting layout and design.

(b) Aggregation—what level of aggregation is appropriate?

(c) Reporting variances—what is an appropriate level of materiality?

(d) Changes to outputs—where changes have occurred during the reporting period, how should these be reported?

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5 *Performance Measurement: Advice and examples on how to develop effective frameworks*, State Services Commission

(e) Use of commentary—how detailed should this be and what information might be included as commentary?

(f) Reconciliation to total expenses—how to deal with reconciliation issues?

C79. Guidance on some of these reporting issues is provided below.

Reporting Layout and Design

C80. Clarity in reporting layout and design is fundamental to ensuring that performance reporting is easy to read and understand. Good layout can improve transparency and the value of the reported information. Performance targets and actual performance should be reported alongside each other to enable the user to readily assess performance.

Aggregation

C81. Aggregation should be at a level that conveys a meaningful understanding of the outputs reported, that is, not at a level so high as to cover or obscure the key outputs or at a level so low as to result in listings of outputs that are too detailed.

C82. Common features of outputs include:

(a) The nature of the output, for example, whether the output relates to policy advice, the supply of recreational services or investigative services;

(b) The recipient of the output, for example, whether the recipient is a local community or a specific type of beneficiary; and

(c) The delivery location.

C83. Aggregation of outputs is similar to the aggregation of financial elements. Outputs may be aggregated according to the nature of the output or on the basis of the outcomes to which they relate. However, aggregation of outputs based on the outcomes to which they relate could lead to dissimilar outputs being grouped and could reduce the understandability of the information for the user. The aggregation of outputs for appropriation purposes is governed by legislative and central agency requirements.

Reporting Variances

C84. Output specification at the beginning of a period reflects the outputs that the entity plans to deliver. Planned outputs may have been agreed with an external party or they may have been determined by the entity after taking account of the views of stakeholders such as members, contributors and community groups. Variance reporting at the end of a period explains the extent to which those expectations have been met. The external reporting of variances between expected and actual service performance is an important aspect of the entity's accountability for funds used, and its ongoing communication with external groups.

C85. Explanations of variances should identify both the size of the variances, as well as the factors leading to them. These factors might include the effect of external factors, inefficiencies in processes, input resource constraints or explicit government decisions.

C86. If an output is intended to be delivered or completed over a number of reporting periods, it is recommended that progress to date be reported. Where performance is assessed over a number of periods the explanation of variances for a particular period should also include a discussion of the impact of current performance on future periods.

C87. A key issue to be considered in reporting variances between projected and actual performance is that of materiality. Materiality depends on both the nature and amount of an item, statement or fact. Financial reporting standards provide some guidance on materiality in the context of financial reporting but not in the context of non-financial information. Judgement is required, therefore, to determine appropriate materiality taking into account all circumstances surrounding the outputs delivered, the entity and the users of the reported information. If information reported on a particular variance could affect the user's decision-making, then that variance should be reported, together with the reason for the variance.[6]

Changes to Outputs

C88. Changes to planned outputs may occur during the reporting period. For example, an entity may amalgamate with another entity during the reporting period or the level or mix of outputs may change. Such changes mean that actual outputs will differ to planned outputs and that the original output targets will no longer be relevant.

C89. In the interests of comprehensiveness and transparency it is recommended that, where possible, the entity report against both the original and the revised service performance. It may also be the case that revised forecasts, for example, become available during the reporting period. Ideally this information should also be reported. This ensures that users have a full picture of information across the entire reporting period. The reason for, and the impact of, these changes should also be outlined in supporting commentary.

Use of Commentary

C90. As a general principle, commentary should be used when necessary to provide additional contextual information that helps the user to understand the nature of the performance. Key information such as performance targets should not be included as commentary. Instead, performance targets should form part of the description of projected output performance.

Consistency of the Measurement Base

C91. Ideally the same basis of measurement is used throughout the reporting period. This enables the user to compare specified performance with actual performance at the end of the performance period.

C92. At the start of a new reporting period, entities, in discussion with other relevant parties, should assess the output measures being used and determine whether there is room to further refine those measures. Although achieving long-term trend analysis over a number of reporting periods is desirable, this should not be pursued at the expense of refining performance measures and strengthening the accuracy and usefulness of the measurement base.

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6 AG-4 *(Revised) The Audit of Service Performance Reports* (paragraph A16) provides the following guidance on materiality. "The relevance of information is affected by its nature and materiality. An output or output performance measure is considered "material" if, when reporting performance, it:

(a) Relates to the primary functions or purposes of the entity (i.e. its "reason for being");
(b) Relates to an output that could be of significant national or community interest or interest to the public, including the media;
(c) Relates to an output of significant risk to the public (for example, performance measures relating to purity of water supply) or an output that could have a negative effect on social, economic, or environmental wellbeing;
(d) Could contain errors or omissions that, individually or collectively, affect the service performance report by altering the user's perception in a way that is likely to influence their assessment of entity performance or their decision making;
(e) Could contain errors or omissions that could adversely affect the reputation of the entity or Parliament, if they were to remain undetected (for example, relating to illegal acts);
(f) Relates to an output that is financially significant; or
(g) Relates to an output target that may have a significant effect on management performance rewards.

Reconciliation to Total Expenses

C93. Where there are costs that have not been allocated to outputs (for example, those associated with a major restructuring), the total of costs allocated to outputs will be less than total expenses in the statement of financial performance. In order to assist users seeking to understand the relationship between the financial statements and the cost of outputs in the statement of service performance, costs that have not been allocated to outputs should be disclosed and their nature explained. Any reconciliation of output costs to total expenses should be to an amount disclosed in the statement of financial performance. An example of a reconciliation to total expenses is provided below.

Reconciliation of total expenses in the Statement of Comprehensive Revenue and Expense to cost of delivery as per the Statement of Service Performance

(in thousands of currency units)

Outputs	**Budget 20X1**	**Actual 20X1**	**Actual 20X0**
Conference centre	345	409	375
Facilitation	1,522	1,593	1,381
Information services	812	795	834
Marketing	1,606	1,725	1,443
Professional development	4,309	4,542	4,258
Publications	1,728	2,018	1,829
Quality assurance	3,183	3,098	2,571
Representation and advocacy	1,645	1,662	1,406
Research and development	221	–	267
Total per statement of service performance	15,371	15,842	14,364
Add unallocated cost[7]	1,768	1,458	1,586
Total per statement of comprehensive revenue and expense	17,139	17,300	15,950

[7] Refer to discussion in section 5.

Comparison with IPSAS 1

PBE IPSAS 1 *Presentation of Financial Statements* is drawn from IPSAS 1 *Presentation of Financial Statements*.

The significant differences between PBE IPSAS 1 and IPSAS 1 are:

(a) PBE IPSAS 1 reflects the New Zealand regulatory environment. It notes that an entity reporting in accordance with the Financial Reporting Act 1993 is not permitted to depart from the requirements of an accounting standard;

(b) PBE IPSAS 1 requires an assertion of compliance with PBE Standards rather than an assertion of compliance with IPSASs; and

(c) PBE IPSAS 1 requires the following additional disclosures:

  (i) The statutory base or other reporting framework, if any, under which the financial statements are prepared;

  (ii) The fact that the entity is a public benefit entity;

  (iii) The fact that the financial statements comply with PBE Standards;

  (iv) Whether the entity has availed itself of any disclosure concessions;

  (v) Fees paid to each auditor or reviewer, including any network firm, for the audit or review of the financial statements and all other services performed during the reporting period; and

  (vi) Where a statement of service performance is presented, a description and disclosure of the outputs of the entity and the outcome(s) to which the outputs are intended to contribute.

(d) PBE IPSAS 1 includes non-integral implementation guidance on service performance reporting.

(e) PBE Standards require the presentation of a statement of comprehensive revenue and expense. IPSASs require the presentation of a statement of financial performance.

History of Amendments

PBE IPSAS 1 *Presentation of Financial Statements* was issued in May 2013.

This table lists the pronouncements establishing and substantially amending PBE IPSAS 1. The table is based on amendments approved as at 31 May 2013.

Pronouncements	**Date approved**	**Early operative date**	**Effective date (annual financial statements … on or after …)**
PBE IPSAS 1 *Presentation of Financial Statements*	May 2013	Early application not permitted	1 July 2014