

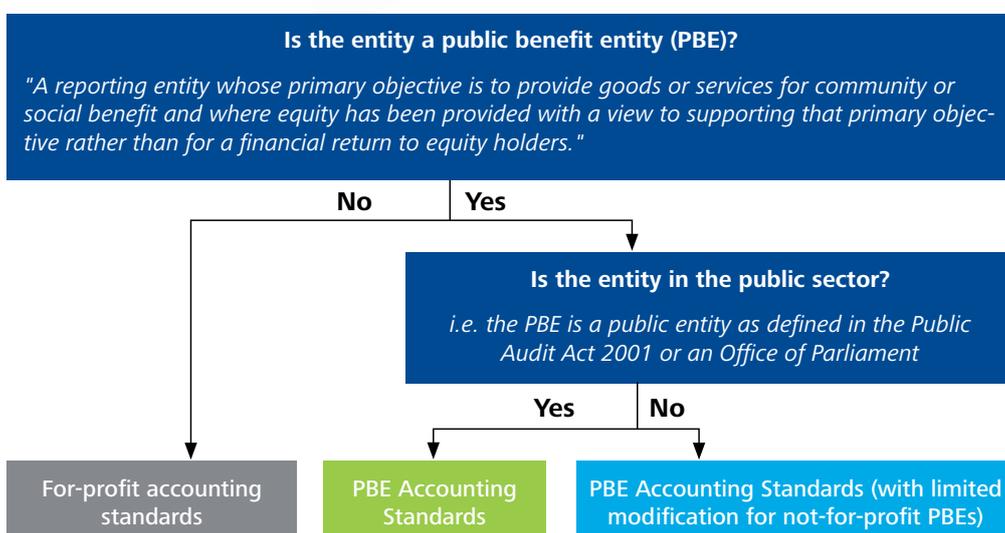
Accounting Alert

Quarterly update for Public Benefit Entities – What’s new in financial reporting for June 2015?



This balance date (30 June 2015) is the first time the External Reporting Board’s (XRB’s) new accounting framework for public benefit entities (PBEs) becomes mandatory – focusing first on public sector (PS) PBEs. The new framework is still optional for PBEs not in the public sector (referred to as not-for-profit (NFP) PBEs) – as it does not apply until periods beginning on or after 1 April 2015.

As PBEs are now starting to apply accounting standards that have started to diverge from the for-profit equivalent standards, the quarterly update has been split into two separate publications depending on whether the entity is ‘for-profit’ or ‘public benefit’. The following flowchart summarises which suite of standards applies:



This alert provides a high level overview of the new and revised financial reporting requirements that need to be considered by PBEs for annual and interim financial reporting periods ending on 30 June 2015. PBEs may be either PS PBEs or NFP PBEs.

As 30 June 2015 is the first balance date where PS PBEs will have to comply with the new accounting standards framework (known as PBE Accounting Standards), this alert contains a full list of the new standards applicable to PBEs. NFP entities do not have to adopt the new framework until periods beginning on or after 1 April 2015 so they can continue to use the interim suite of NZ IFRS for PBEs which has largely frozen the amendments and new standards included in the NZ IFRS framework, in advance of moving to the PBE Accounting Standards.

The XRB's website reflects the multiple sets of accounting standards that are available, so check you are using the right version. Links are provided below.

	PS PBEs	NFP PBEs
'Interim' suite	Applies to periods beginning on or after 1 December 2012 and up to periods beginning on or before 30 June 2014 Link here	Applies to periods beginning on or after 1 December 2012 and up to periods beginning on or before 31 March 2015 Link here
'New' suite	Applies to periods beginning on or after 1 July 2014 Link here	Applies to periods beginning on or after 1 April 2015 Link here



The new Accounting Standards Framework (XRB A1)

The Accounting Standards Framework is a two sector (for-profit and PBE), multi-tiered Framework. This approach has been adopted in order to meet the differing information needs of each sector's users of financial statements. The framework for PBEs is based on International Public Sector Accounting Standards (IPSAS).

The XRB issued XRB A1: *Accounting Standards Framework*, which has been regularly updated as phases of the Framework have been finalised. XRB A1 sets out the tiers for reporting, the standards that apply to each tier and the requirements for transitioning between tiers.

The Accounting Standards Framework for PBEs consists of the following suites of standards:

Accounting Standards Framework for Public Benefit Entities		
	Public sector PBEs <i>Applicable for annual periods beginning on or after 1 July 2014</i>	Not-for-profit PBEs <i>Applicable for annual periods beginning on or after 1 April 2015</i>
Tier 1	PBE Standards (PS) – Public accountability ¹ , or – Large (expenses ² > \$30m)	PBE Standards (NFP) – Public accountability ¹ , or – Large (expenses ² > \$30m)
Tier 2	PBE Standards RDR (PS) – Non-publicly accountable and non-large – Elect to be in Tier 2	PBE Standards RDR (NFP) – Non-publicly accountable and non-large – Elect to be in Tier 2
Tier 3	Simple Format (Accrual) (PS) – Non-publicly accountable & expenses ² ≤ \$2 million – Elect to be in Tier 3	Simple Format (Accrual) (NFP) – Non-publicly accountable and expenses ² ≤ \$2 million – Elect to be in Tier 3
Tier 4	Simple Format (Cash) (PS) – Entities allowed by law to use cash accounting – Elect to be in Tier 4 Non-GAAP standard	Simple Format (Cash) (NFP) – Entities allowed by law to use cash accounting – Elect to be in Tier 4 Non-GAAP standard

¹ Definition of 'public accountability':

Entities that meet the International Accounting Standards Board's (IASB) definition of public accountability:

- Entities that have debt or equity instruments that are traded, or that will be traded, in a public market,
- Entities that hold assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.

Entities deemed to be publicly accountable. An entity would be deemed to be publicly accountable in the New Zealand context if:

- It is a FMC reporting entity or a class of FMC reporting entities that is considered by the FMA to have a higher level of public accountability than other FMC reporting entities under section 461K of the Financial Markets Conduct Act 2013 (FMCA 2013), or
- It is an FMC reporting entity or class of FMC reporting entities that is considered by the FMA to have a higher level of public accountability by a notice issued by the Financial Markets Authority (FMA) under section 461L(1)(a) of the FMCA 2013, or
- It is an issuer under the transitional provisions of the Financial Reporting Act 2013.

For information on which entities the FMA has designated as having 'higher or lower public accountability' refer to the link:

<https://www.fma.govt.nz/compliance/exemptions/exemption-categories/financial-reporting-exemption-information/>

² 'Expenses' are the total expenses (including losses and grant expenses) recognised and measured in accordance with the relevant tier's standards.

Legislative update

The above Framework applies when an entity is required to comply with GAAP or a non-GAAP standard. Requirements to comply with GAAP or a non-GAAP standard are specified in legislation but may be included in other arrangements (e.g. contracts).

The Financial Reporting Act 2013 ('FRA') and accompanying amendments to other Acts (such as the Charities Act 2005) is now in force for financial years ending 31 March 2015 and beyond. Entities will need to consider whether they have a statutory or other (e.g. contractual) requirement to prepare financial statements going forward and if so, which tier of reporting is applicable. Entities which don't have a statutory or contractual obligation may still need to comply with the Inland Revenue Department's prescribed minimum requirements.

Summary

The following table sets out the new standards applicable to Tiers 1-4 (collectively known as 'PBE Accounting Standards'). Tiers 1 and 2 use PBE Standards while Tiers 3 and 4 use Simple Format Reporting. The information below was updated on 9 June 2015 for developments to that date.

PBE Standards

There are currently two versions of the PBE Standards on issue. The first version was issued in May 2013 and has an effective date of 1 July 2014. This version is applicable to PS PBEs only. In September 2014 an updated version of the PBE Standards was issued, containing NFP-specific guidance and examples.

The requirements in the two versions of PBE Standards are fundamentally the same, except with regard to:

- related party disclosures - NFPs are required to disclose all transactions with related parties, regardless of whether the transactions are conducted on arm's-length)
- consolidated and separate financial statements – PS PBEs and NFP PBEs will apply different versions of PBE IPSAS 6 but the requirements are fundamentally the same.

The table below gives a list of the PBE Standards. The effective dates are as follows:

- PS PBEs: Annual periods beginning on or after 1 July 2014.
- NFP PBEs: Annual periods beginning on or after 1 April 2015.

Simple Format Reporting

The standards for Tiers 3 and 4 are designed to be simple and easy-to-use, with one standard for each tier. The Tier 3 standard is based on accrual accounting while Tier 4 is based on cash accounting. Financial statement templates (in Excel and PDF) are available on the XRB's website.

Transition to PBE Accounting Standards

Disclosure relating to first-time adoption of PBE Accounting Standards needs to be carefully considered. We have outlined some considerations in respect of the PBE Standards in Appendix A.

For those entities reporting under Simple Format Reporting standards there are no disclosure requirements relating to transition to PBE Accounting Standards, other than the requirement for new entities to disclose their date of commencement. Tier 3 entities are encouraged, but not required, to disclose separately the significant restatements made from previous GAAP.

PBE Accounting Standards on Issue

PBE Accounting Standards
PBE Framework
The Accounting Standards Framework (XRB A1)
<i>XRB A1 Accounting Standards Framework (For-profit Entities plus Public Sector Public Benefit Entities plus Not-for-profit Entities Update)</i>
XRB A2 Meaning of Specified Statutory Size Thresholds
PBE Standards (Tier 1 and 2)
PBE IPSAS 1 <i>Presentation of Financial Statements</i>
PBE IPSAS 2 <i>Cash Flow Statements</i>
PBE IPSAS 3 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>
PBE IPSAS 4 <i>The Effects of Changes in Foreign Exchange Rates</i>
PBE IPSAS 5 <i>Borrowing Costs</i>
PBE IPSAS 6 <i>Consolidated and Separate Financial Statements¹</i>
PBE IPSAS 7 <i>Investments in Associates</i>
PBE IPSAS 8 <i>Interests in Joint Ventures</i>
PBE IPSAS 9 <i>Revenue from Exchange Transactions</i>
PBE IPSAS 10 <i>Financial Reporting in Hyperinflationary Economies</i>
PBE IPSAS 11 <i>Construction Contracts</i>

¹ There are currently 3 versions of this Standard on issue: PBE IPSAS 6 has an effective date of 1 July 2014 and is applicable to PS PBEs only. PBE IPSAS 6 (PS) and PBE IPSAS 6 (NFP) both have an effective date of 1 April 2015 and are applicable to PS PBEs and NFP PBEs respectively, with early adoption not permitted for PS PBEs.

² Only applicable to PS PBEs

PBE IPSAS 12 <i>Inventories</i>
PBE IPSAS 13 <i>Leases</i>
PBE IPSAS 14 <i>Events After the Reporting Date</i>
PBE IPSAS 16 <i>Investment Property</i>
PBE IPSAS 17 <i>Property, Plant and Equipment</i>
PBE IPSAS 19 <i>Provisions, Contingent Liabilities and Contingent Assets</i>
PBE IPSAS 20 <i>Related Party Disclosures</i>
PBE IPSAS 21 <i>Impairment of Non-Cash-Generating Assets</i>
PBE IPSAS 22 <i>Disclosure of Information About the General Government Sector²</i>
PBE IPSAS 23 <i>Revenue from Non-Exchange Transactions</i>
PBE IPSAS 25 <i>Employee Benefits</i>
PBE IPSAS 26 <i>Impairment of Cash-Generating Assets</i>
PBE IPSAS 27 <i>Agriculture</i>
PBE IPSAS 28 <i>Financial Instruments: Presentation</i>
PBE IPSAS 29 <i>Financial Instruments: Recognition and Measurement</i>
PBE IPSAS 30 <i>Financial Instruments: Disclosures</i>
PBE IPSAS 31 <i>Intangible Assets</i>
PBE IPSAS 32 <i>Service Concession Arrangements: Grantor</i>
PBE IFRS 3 <i>Business Combinations</i>
PBE IFRS 4 <i>Insurance Contracts</i>
PBE IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i>
PBE IAS 12 <i>Income Taxes</i>
PBE IAS 34 <i>Interim Financial Reporting</i>
PBE FRS 42 <i>Prospective Financial Statements</i>
PBE FRS 43 <i>Summary Financial Statements</i>
PBE FRS 45 <i>Service Concession Arrangements: Operator</i>
PBE FRS 46 <i>First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRSs</i>
PBE FRS 47 <i>First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRSs</i>
Tier 3 Standards
PBE SFR-A (PS) <i>Public Benefit Entity Simple Format Reporting - Accrual (Public Sector)</i>
PBE SFR-A (NFP) <i>Public Benefit Entity Simple Format Reporting - Accrual (Not-For-Profit)</i>
Tier 4 Standards
PBE SFR-C (PS) <i>Public Benefit Entity Simple Format Reporting – Cash (Public Sector)</i>
PBE SFR-C (NFP) <i>Public Benefit Entity Simple Format Reporting – Cash (Not-For-Profit)</i>

¹ There are currently 3 versions of this Standard on issue: PBE IPSAS 6 has an effective date of 1 July 2014 and is applicable to PS PBEs only. PBE IPSAS 6 (PS) and PBE IPSAS 6 (NFP) both have an effective date of 1 April 2015 and are applicable to PS PBEs and NFP PBEs respectively, with early adoption not permitted for PS PBEs.

² Only applicable to PS PBEs

Amendments to PBE Accounting Standards

The table below sets out the recent new pronouncements for PS PBEs and NFP PBEs respectively, and whether they are optional or mandatory for the financial year or interim period ending 30 June 2015. Note that entities reporting under Simple Format Reporting are not required to present information for interim periods.

An NFP PBE may only early adopt an amendment when the entity has adopted PBE Accounting Standards.

New Pronouncement	Effective date	Year ending June 2015		Interim ending June 2015	
		PS PBE	NFP PBE	PS PBE	NFP PBE
Accounting Standards Framework (XRB A1)					
<i>XRB A1 Accounting Standards Framework (For-profit Entities plus Public Sector Public Benefit Entities plus Not-for-profit Entities minus For-profit Tier 3 and Tier 4 Update)</i>	1 April 2015	NP	O	NP	O
PBE Standards (Tiers 1 and 2)					
<i>Amendments to Accounting Standards: Omnibus Amendments (Legislative Update)</i>	1 April 2015	NP	O	NP	O
Simple Format Reporting (Tiers 3 and 4)					
<i>Interests in Other Entities (Amendments to PBE SFR-A (PS))</i>	1 July 2014	M			
<i>Interests in Other Entities (Amendments to PBE SFR-A (NFP))</i>	1 April 2015		O		

Key

O Optional M Mandatory – first time NP Early adoption not permitted



Impact of each new and revised pronouncement

The following table sets out information on the impact of the recent new pronouncements (see key on page 6).

For amendments to the Accounting Standards Framework please refer to the discussion on page 2.

New Pronouncement	Effective date	Year ending 30 June 2015		Interim ending 30 June 2015	
		PS PBE	NFP PBE	PS PBE	NFP PBE
Accounting Standards Framework (XRB A1)					
XRB A1 Accounting Standards Framework (For-profit Entities plus Public Sector Public Benefit Entities plus Not-for-profit Entities minus For-profit Tier 3 and Tier 4 Update)	1 April 2015	NP	O	NP	O
An updated XRB A1 was issued in March 2015, with Tiers 3 and 4 for for-profit entities removed. The updated XRB A1 is effective for annual reporting periods beginning on or after 1 April 2015.					
PBE Standards (Tiers 1 and 2)					
Amendments to Accounting Standards: Omnibus Amendments (Legislative Update)	1 April 2015	NP	O	NP	O
These amendments were made due to the changes in the legislative environment, specifically due to the introduction of the Financial Reporting Act 2013 and the Financial Markets Conduct Act 2013. The Standards affected are PBE IPSAS 1, PBE IAS 34, PBE FRS 42, PBE FRS 43 and the PBE Framework. No new accounting requirements were added as a result of the amendments.					
Simple Format Reporting (Tiers 3 and 4)					
Interests in Other Entities (Amendments to PBE SFR-A (PS))	1 July 2014	M			
These amendments require a Tier 3 PS PBE to account for controlled entities, interests in associates and joint ventures in accordance with the relevant Tier 2 PBE Standards. Any RDR concessions available to Tier 2 entities are available to Tier 3 PS PBEs. The amendments also clarify that any interest in an entity which is not a controlled entity, associate or joint venture should be accounted for in accordance with Section 6 of PBE SFR-A (PS).					
Interests in Other Entities (Amendments to PBE SFR-A (NFP))	1 April 2015		O		
These amendments require a Tier 3 NFP PBE to account for controlled entities, interests in associates and joint ventures in accordance with the relevant Tier 2 PBE Standards. Any RDR concessions available to Tier 2 entities are available to Tier 3 NFP PBEs. The amendments also clarify that any interest in an entity which is not a controlled entity, associate or joint venture should be accounted for in accordance with Section 6 of PBE SFR-A (NFP).					



Appendix A – Shedding light on the disclosures required upon first-time adoption of PBE Standards

PBE Standards (i.e. the standards for Tier 1 and 2 PBEs) require disclosures in relation to first-time adoption of PBE Standards. The disclosure requirements surrounding transition to PBE Standards are specified by:

- for those entities who previously applied NZ IFRS – PBE FRS 46 *First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRSs*
- for those entities who did not previously apply NZ IFRS – PBE FRS 47 *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRSs*.

Entities reporting under PBE Standards RDR (Tier 2 entities) are permitted exemptions from certain disclosures as noted below.

What disclosures are required?

Item of disclosure	Summary of disclosures required	
	PBE FRS 46	PBE FRS 47
Opening statement of financial position	<p>To be prepared at the date of transition.</p> <p>If there are no adjustments which materially affect any financial statement line items at the date of transition then the opening statement of financial position is not required to be disclosed.</p>	<p>To be prepared and presented at the date of transition (presentation may be in the notes)</p> <p><i>Tier 2 entities do not need to present the opening statement of financial position.</i></p>
Comparative information	<p>All comparative information that is required by PBE Standards must be disclosed (including a comparative cash flow statement even if an entity had previously applied differential reporting concessions)</p> <p>PBE IPSAS 1 <i>Presentation of Financial Statements</i> applies where the presentation or classification of an item changes as a result of first-time adoption of PBE Standards. Therefore, the following would be disclosed:</p> <ul style="list-style-type: none"> • The nature of the reclassification; • The amount of each item or class of items that is reclassified; and • The reason for the reclassification (i.e. first-time adoption of PBE Standards) <p>Where reclassification is impracticable the reason for not reclassifying and the nature of the adjustments that would have been made must be disclosed.</p> <p>If comparative information is presented in addition to the information required by PBE IPSAS 1, and the comparative information is prepared in accordance with NZ IFRS:</p> <ul style="list-style-type: none"> • Identify the NZ IFRS information as not being prepared in accordance with PBE Standards • Disclose the <u>nature</u> of the main adjustments that would need to be made to make the information comply with PBE Standards 	<p>All comparative information that is required by PBE Standards must be disclosed (including a comparative cash flow statement even if an entity had previously applied differential reporting concessions)</p> <p><i>Tier 2 NFP PBEs do not need to present comparative information in the first set of financial statements under PBE Standards (although an opening statement of financial position would be required). If a Tier 2 NFP PBE decides not to present comparative information then it must attach a copy of the prior year's financial statements and provide explanations (in the notes) of the significant differences between the accounting policies used.</i></p> <p>If comparative information is presented in addition to the information required by PBE IPSAS 1, and the comparative information is prepared in accordance with previous GAAP:</p> <ul style="list-style-type: none"> • Identify the NZ IFRS information as not being prepared in accordance with PBE Standards • Disclose the <u>nature</u> of the main adjustments that would need to be made to make the information comply with PBE Standards
Historical summaries not prepared in accordance with PBE Standards	Same requirements as for additional comparative information presented (see above)	Same requirements as for additional comparative information presented (see above)

Item of disclosure	Summary of disclosures required	
	PBE FRS 46	PBE FRS 47
Reconciliations	Not required	<p>The following reconciliations between previous GAAP and PBE Standards should be disclosed:</p> <ul style="list-style-type: none"> • Net assets/equity (at the date of transition and the end of the latest period presented under previous GAAP) • Total comprehensive revenue and expense (with the starting point being total comprehensive revenue and expense under previous GAAP for the latest period presented) <p>These reconciliations should be detailed enough for users to understand the material adjustments made to the statement of financial position and statement of comprehensive revenue and expense.</p> <p>Material adjustments to the cash flow statement should also be disclosed where a cash flow statement was previously presented under previous GAAP.</p> <p>The reconciliations need to differentiate between any correction of errors and changes in accounting policies.</p> <p>The reconciliations should be updated where changes in accounting policies, or changes in the use of exemptions contained in PBE FRS 47 are made in the first set of PBE Standards-compliant financial statements.</p> <p><i>Tier 2 entities do not need to explain how the transition from previous GAAP to PBE Standards affected their reported financial position, statement of comprehensive revenue and expense and cash flows, and do not need to present the reconciliation relating to total comprehensive revenue and expense.</i></p>
General disclosure	<ul style="list-style-type: none"> • Include a statement that the financial statements are the first financial statements presented in accordance with PBE Standards • For each financial statement line item materially affected at the date of adoption, disclose the nature and amount of the adjustment 	<ul style="list-style-type: none"> • Provide an explanation of how the transition from previous GAAP to PBE Standards affected the financial position, financial performance and cash flows of the entity. <i>Note that explanations of this type are required for changes made between the first interim financial report under PBE Standards and the first financial statements under PBE Standards where there have been changes in accounting policies or changes in the use of exemptions contained in PBE FRS 47 in the first set of financial statements under PBE Standards.</i> • Any first-time impairment losses or reversals made in the opening statement of financial position should be disclosed in accordance with PBE IPSAS 21 <i>Impairment of Non-Cash-Generating Assets</i> and PBE IPSAS 26 <i>Impairment of Cash-Generating Assets</i> • Disclose the fact that no financial statements were presented in previous periods, if applicable. <p><i>Tier 2 entities only need to disclose that there were no financial statements presented in previous periods, if applicable.</i></p>
Interim financial reports	Some of the above disclosures are required in an entity's first interim financial report under PBE Standards.	

Our PBE disclosure checklist (which includes the disclosure requirements on first-time adoption of PBE Standards) can be found [here](#)

A number of other disclosures are required if the entity uses any exemptions contained in PBE FRS 47.

New Zealand Directory

Auckland Private Bag 115033, Shortland Street, Auckland, 1140, Ph +64 (0) 9 303 0700, Fax +64 (0) 9 303 0701

Hamilton PO Box 17, Hamilton, 3240, Ph +64 (0) 7 838 4800, Fax +64 (0) 7 838 4810

Rotorua PO Box 12003, Rotorua, 3045, Ph +64 (0) 4 343 1050, Fax +64 (0) 4 343 1051

Wellington PO Box 1990, Wellington, 6140, Ph +64 (0) 4 470 3500, Fax +64 (0) 4 470 3501

Christchurch PO Box 248, Christchurch, 8140, Ph +64 (0) 3 363 3800, Fax +64 (0) 3 363 3801

Dunedin PO Box 1245, Dunedin, 9054, Ph +64 (0) 3 474 8630, Fax +64 (0) 3 474 8650

Internet address <http://www.deloitte.co.nz>

This publication is intended for the use of clients and personnel of Deloitte. It is also made available to other selected recipients. Those wishing to receive this publication regularly are asked to communicate with:

The Editor,
Accounting Alert

Private Bag 115033,
Shortland Street,
Auckland, 1140

Ph +64 (0) 9 309 4944
Fax +64 (0) 9 309 4947

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries and territories, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte's more than 200,000 professionals are committed to becoming the standard of excellence.

Deloitte New Zealand brings together more than 1000 specialist professionals providing audit, tax, technology and systems, strategy and performance improvement, risk management, corporate finance, business recovery, forensic and accounting services. Our people are based in Auckland, Hamilton, Rotorua, Wellington, Christchurch and Dunedin, serving clients that range from New Zealand's largest companies and public sector organisations to smaller businesses with ambition to grow. For more information about Deloitte in New Zealand, look to our website www.deloitte.co.nz

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the "Deloitte network") is, by means of this communication, rendering professional advice or services. No entity in the Deloitte network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.

© 2015. For information, contact Deloitte Touche Tohmatsu Limited.