
**IMPLICATIONS FOR COUNCIL OF NEW AND
PROPOSED FINANCIAL REPORTING STANDARDS**

1. PURPOSE

The purpose of this regular report is to inform the Sub-Committee of new and proposed Financial Reporting Standards and their likely impact for the Council.

2. RECOMMENDATIONS

It is recommended that the Subcommittee:

1. *Receive the information.*
2. *Note the developments in New Zealand generally accepted accounting practice (GAAP) since the Sub-Committee meeting in September 2004.*

3. BACKGROUND

The Local Government Act 2002 requires the Council to comply with GAAP in preparing the Annual Report. GAAP is defined by the Accounting Standards Review Board (ASRB) to encompass all Financial Reporting Standards (FRSs) and other sources of appropriate authoritative support (for example; exposure drafts of financial reporting standards, international accounting standards etc). Non-compliance with GAAP therefore represents a breach of the Local Government Act.

Council Officers have undertaken to report to the Sub-Committee on a regular basis in relation to any new FRSs and any exposure drafts currently on issue by the Institute of Chartered Accountants of New Zealand (the Institute). This report outlines new developments in GAAP since the last Sub-Committee meeting on 17 September 2004.

4. DEVELOPMENTS IN FINANCIAL REPORTING STANDARDS

The recent focus of the New Zealand Financial Reporting Standards Board (FRSB) has been to convert all International Financial Reporting Standards (IFRS) into a new set of FRSs for New Zealand (refer paragraph 5 below for further information in respect of IFRS). As a result, further developments in existing New Zealand financial reporting standards are likely to be minimal.

However, we are aware that the FRSB are currently considering the definition of control within FRS-37: *Consolidating Investments in Subsidiaries*. The FRSB has noted that the definition may not be working as originally intended and are therefore considering proposing some amendments. We understand that the FRSB intends to issue a discussion paper outlining the core issues and possible ways of addressing these. This paper will also consider the definition of control in NZ IAS 27 (the equivalent NZ IFRS) and whether it is appropriate to issue associated application guidance.

This area is of importance for the Council as we have previously highlighted to both the Sub-Committee and the FRSB the difficulties we have faced in applying the control definition in a public benefit context. This is particularly difficult in respect of the accounting treatment of Trusts. We therefore welcome the FRSB's proposal and eagerly await the issuance of the discussion paper.

5. INTERNATIONAL FINANCIAL REPORTING STANDARDS

5.1 History

The New Zealand ASRB announced on 19 December 2002 that IFRS would apply to financial reporting by public and private sector entities in New Zealand from 1 January 2007 (with the option to adopt early from 1 January 2005). This decision was taken following the announcement in August 2002 by the Australian Financial Reporting Council (FRC) to require Australian reporting entities to adopt IFRS in 2005.

Since the 2002 announcement, New Zealand standard setters have been working through a number of transitional issues. For example, IFRS are not readily applicable in a public sector context. As a result, it was determined that the adoption of IFRS in New Zealand would occur through the issuance of a set of New Zealand standards, integrating the IFRS with additional material dealing with the application of the standard by public sector entities. This is consistent with the approach followed in Australia.

The process of converting the suite of IFRS into a new set of FRS for New Zealand (called "NZ IFRS") has taken place over the past eighteen months. The FRSB published a number of exposure drafts comprising the respective IFRS with additional guidance for New Zealand public benefit entities. These exposure drafts were released in batches to enable interested parties to provide feedback, before finalisation and submission to the ASRB for approval.

The implications of the adoption of NZ IFRS will be significant for New Zealand reporting entities, including the Council. Local authorities will adopt NZ IFRS for external reporting purposes for the accounting period ending 30 June 2007. While the adoption date may seem a long way away, there is a significant amount of preparation required. In addition, the requirement for comparative figures to comply with NZ IFRS in the year of adoption means that the Council will need to be in a position to comply with the new standards from the beginning of the prior period (ie period ending 30 June 2006).

To prepare the Council for the transition towards the implementation of NZ IFRS, the Council established an IFRS working group within the Financial Accounting Team. Our project plan is attached as Appendix One. Over the past eighteen months, this group has been reviewing the exposure drafts of the NZ IFRS and identifying the significant financial implications for the Council. We have also prepared submissions on the exposure drafts as appropriate and reported these to the quarterly Audit and Risk Management Sub-Committee meetings.

5.2 Developments since last Sub-Committee meeting

On 24 November 2004 the ASRB approved the suite of NZ IFRS. This means that there is now a reasonably stable platform of standards, which reporting entities can use to assess the implications of implementation. Council Officers are now reviewing the approved standards and analysing the implications for the Council's financial statements and accounting policies. This will enable us to conduct a trial run of NZ IFRS financial statements for the Sub-Committee's review, and to prepare an opening balance sheet reconciliation between existing NZ GAAP and NZ IFRS as at 1 July 2005.

However, the approved NZ IFRS are subject to change and we would expect further amendments to reflect international developments as well as the issuance of further guidance material for public benefit entities. For example, we are aware that the FRSB is currently considering an exposure draft providing application guidance on the definition of public benefit entities. A discussion paper and the draft exposure draft are due to be tabled at the March 2005 FRSB meeting for approval to issue for comment. We will maintain a watching brief over developments in this area and keep the Sub-Committee informed of any implications for the Council.

5.3 Exposure Drafts on Issue

The Council makes submissions on exposure drafts where there is potential for a significant impact on either the Council as a reporting entity or the level of funding provided by ratepayers. We also consider whether the proposals are appropriate, in our opinion, from a standard setting perspective.

No submissions have been made on behalf of the Council since the last Sub-Committee meeting. As the stable platform of NZ IFRS has now been approved, there are likely to be less exposure drafts on issue over coming months. We are aware of one current exposure draft on issue – a discussion paper and associated IFRIC Draft Interpretations D12, D13, D14 on Service Concession Arrangements. We are in the process of reviewing this exposure draft and would expect to make a submission

before the closing date of 20 April 2005. We will update the Sub-Committee in this regard at the June 2005 meeting.

6. IFRS WORKSHOPS

As part of our detailed planning for the implementation of IFRS, the Council has been working with PricewaterhouseCoopers (PWC) to undertake a series of workshops. The workshops involve representatives from Council and our subsidiary entities (such as the Museums Trust, Capacity, Wellington Cable Car Limited etc). The purpose of the workshops is to assess the impact of adopting the NZ IFRS on the Council and Group and to highlight potential conversion issues. The involvement of the subsidiary entities has been important, to ensure that the entire WCC Group is prepared. The outcome of the workshops will be a detailed plan for implementation. We will provide the Sub-Committee with an update on the results of the workshops during the next quarterly meeting.

7. COUNCIL REPRESENTATION ON ICANZ COMMITTEES

The Council's Financial Controller, Neil Cherry has recently been appointed to the Institute's Professional Practices Board. This appointment, together with our existing representation on the Public Sector Committee, provide the Council with increased opportunity for input into future accounting pronouncements, with particular emphasis on ensuring that implications for public sector entities (including local authorities) are represented. The Board also provides a forum to influence standard setting within New Zealand.

In addition, we have been working with the Institute on various IFRS initiatives. Our IFRS Project Manager, Aaron Crookston was recently invited to be a member of an advisory group for New Zealand's representative on the International Public Sector Accounting Standards Board, and we have also been asked to provide feedback on guidance material prepared by the Institute for public benefit entities.

8. CONCLUSION

Since the last Sub-Committee meeting, the suite of NZ IFRS has been approved by the ASRB. Council Officers are now reviewing the approved standards and analysing the implications for the Council's financial statements and accounting policies. This will enable us to prepare an opening balance sheet reconciliation and conduct a trial run of NZ IFRS financial statements for the Sub-Committee's review.

We will continue to report developments to the Sub-Committee on a quarterly basis.

Report prepared by:

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30 JANUARY 2004

PROJECT PLAN

**WELLINGTON CITY COUNCIL:
ADOPTION OF NEW ZEALAND
INTERNATIONAL
FINANCIAL REPORTING STANDARDS**

PREPARED BY FINANCE

INTRODUCTION

New Zealand's accounting standard-setting bodies have decided that NZ entities should adopt for external financial reporting purposes International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). The standards will have to be applied by every local authority in New Zealand for accounting periods beginning on or after 1 January 2007. However, local authorities also have the option to adopt the standards early, after periods beginning 1 January 2005 if they wish.

Because IFRS apply to profit orientated entities, have not been developed with public sector entities in mind, and differ from NZ's existing standards in various areas the IFRS are being released for comment prior to being finalised and issued for release in New Zealand. Additional material will be included in the standards, where appropriate, to ensure that they can be applied in the New Zealand environment by all reporting entities. The resulting standards are to be called NZ IFRS.

This project plan provides an overview of the steps and resources required for the Council and its Group to adopt NZ IFRS. The plan highlights:

- the objectives of the project
- the project scope
- the project team
- the proposed timeframe for the Council and its Group to adopt NZ IFRS
- the rationale for the proposed timeframe
- the key tasks required to complete the project
- the project reporting and communication parameters.

PROJECT OBJECTIVES

The objectives of the project are to:

1. understand the impact of adopting NZ IFRS
2. raise awareness and foster understanding among Council staff and Councillors of the implications of IFRS
3. ensure that the Council and Group have systems and processes in place to produce the information required by NZ IFRS
4. adopt and apply NZ IFRS in the Council and Group environment in the required timeframe
5. provide leadership in the local government sector in the development and application of NZ IFRS.

PROJECT SCOPE

The project scope includes:

1. reviewing and commenting on the proposed standards
2. liaising with accounting standard-setters to influence the development of the standards
3. liaising with other local authorities, the Society of Local Government Managers and other group entities to understand and assess the impact of NZ IFRS
4. modifying existing systems and processes and implementing new systems and processes, where necessary, to ensure that the information required by NZ IFRS can be produced
5. keeping staff and Councillors informed and up-to-date on the implications and developments.

PROJECT TEAM

The project team and their responsibilities are as follows:

- Project Sponsor: Neil Cherry
- Project Manager: Aaron Crookston
- Project Steering Group: Neil Cherry
Aaron Crookston
Helen Rogers
- Core project team members*:
Neil Cherry
Aaron Crookston
Megan Lewis
Shane Mercer
Matthew Murfitt
Helen Rogers
Murray Weston

* The core project team are all members of the Finance Team. However, staff members from other business units will be used when and as required.

PROPOSED TIMEFRAME FOR THE ADOPTION OF NZ IFRS

Annual reporting

It is proposed that the Council and Group adopt NZ IFRS for external reporting purposes for the accounting period commencing 1 July 2006. This is one year earlier than the 1 July 2007 deadline. The implications of this proposal are that:

- the financial statements for the comparative accounting period (the period commencing 1 July 2005) will need to be restated to ensure the figures for both periods are prepared on the same basis
- an opening NZ IFRS balance sheet will need to be prepared at 1 July 2005 and several reconciliations will need to be prepared which reconcile the equity of the Council and Group under existing NZ generally accepted accounting practice (GAAP) to the equity of the Council and Group under NZ IFRS.

Long term and annual planning

Under the requirements of the Local Government Act 2002 annual planning documents and long term council community plans (LTCCPs) must be prepared on a basis that is consistent with that of the annual report prepared for the same period. Therefore, adopting NZ IFRS in accordance with the above timeframe for annual reporting purposes will mean that the LTCCP covering the 10 years commencing 1 July 2006 will also need to be prepared on the basis of NZ IFRS. This means that the budget figures for the comparative accounting period (the period commencing 1 July 2005) will need to be restated to ensure that the figures for both periods are prepared on the same basis or comparative figures will need to be excluded from the LTCCP for that year. Comparative figures have always been included in the Council's planning documents; however, this is not a mandatory financial reporting requirement. Guidance on this issue for the local government sector is currently being sought from the Institute of Chartered Accountants of New Zealand and the Office of the Controller and Auditor-General.

Rationale

The rationale for adopting NZ IFRS within the above timeframe (ie one year earlier than is required) is that it allows the Council and Group sufficient time to prepare for the conversion process and also means that the LTCCP covering the 10 years commencing 1 July 2006 will be prepared using one set of standards (NZ IFRS) rather than two. If NZ IFRS were not adopted by the Council for reporting purposes until the accounting period commencing 1 July 2007 it would mean that the LTCCP prepared for the 10 years commencing 1 July 2006 would have to be prepared using two different accounting bases (i.e existing GAAP for the accounting period commencing 1 July 2006 and NZ IFRS for the subsequent 9 accounting periods). This is not considered satisfactory because it could cause confusion for readers of the document.

KEY TASKS

A Gantt chart is attached which presents the key activities required to complete the project within the proposed timeframe. Refer to Appendix A.

REPORTING

The project manager will report to the project steering group on a monthly basis outlining draft submissions, progress to date and any potential problems. The project sponsor will provide a report to the Audit and Risk Management Board (Board) on a quarterly basis and provide a copy to the Board of any submissions prepared on the EDs.

EXTERNAL COMMUNICATION

All external communication about the adoption of NZ IFRS by the Council must be approved by the project steering group unless explicitly delegated.