

Update on IPSAS conversion

Recommendation

That the Board:

- i. Notes this report.

Executive summary

The External Reporting Board (XRB) has introduced a new multi-standard financial reporting framework in New Zealand. The new framework requires public sector public benefit entities (PBEs) to report against a new suite of PBE standards called International Public Sector Accounting Standards (IPSAS) from 1 July 2014.

We are currently working on a project to transition to the new framework. Currently the only major difference identified is in the reporting of Revenue. Revenue is now classified as exchange or non-exchange. We are seeking Audit NZ agreement with our proposed treatment in preparation for AT's June 2015 Annual Report.

Background

The new multi-standards financial reporting introduced by the XRB will result in separate suites of accounting standards for the following three sectors:

- 1) for-profit
- 2) public sector public benefit entities (PBEs)
- 3) private not-for-profit PBEs (e.g. registered charities)

The framework changes will mean that from 1 July 2014, Public Sector PBEs will report against a new suite of PBE standards called International Public Sector Accounting Standards (PBE IPSAS).

As AT is designated as a PBE, the Financial Statements of AT will need to be prepared using the new PBE standards from the financial period beginning 1 July 2014.

This includes:

- AT Half-year financials for consolidation by AC – audited
- AT Half-year report December 2014 – unaudited
- AT Annual report 2015 – audited

We will need to present prior-year comparative figures under the new basis.

One of the main differences of PBE IPSAS, compared to the current reporting standards applied by Auckland Transport, is around the classification of revenue between 'exchange' and 'non-exchange'. The classification of exchange or non-exchange can result in a different timing for the recognition of revenue. See table below for more details.

Exchange transactions are similar to commercial transactions when the exchange between the parties is of approximately equal value. Non-exchange transactions occur where there is not equal exchange, or where there is compulsion on one of the parties.

We have identified and reviewed all revenue streams and classified them to the appropriate type of transaction.

We are in the process of finalising this framework, together with our classification of significant revenue types. This will be provided to Audit New Zealand to support how we will be preparing the financial statements for Auckland Transport in the future.

Transition Project

We are currently working on a project to transition to the new framework. This involves working with both AC and Audit NZ to ensure group and audit issues are considered.

This project includes:

- Identifying changes
- Assessing impact of changes
- Revising our reporting for these changes

A full day of IPSAS training has been organised for AT and AC finance staff on 11 December 2014.

Below is a list of workflows that have been identified so far. There may be other changes not yet identified

Standard	Key Differences
Presentation of Primary Financial Statements (PBE IPSAS 1)	<p>Statement of Comprehensive Revenue and Expense</p> <ul style="list-style-type: none"> - No longer called Statement of Comprehensive Income - Revenue to be shown on a gross basis, so 'other gains and losses' can no longer be net <p>Statement of Financial Position</p> <ul style="list-style-type: none"> - Receivables to be split between: <ul style="list-style-type: none"> • Receivables from non-exchange transactions; and • Receivables from exchange transactions. <p>Statement of Changes in Net Assets/Equity</p> <ul style="list-style-type: none"> - No longer called Statement of Changes in Equity
Accounting Policies	<ul style="list-style-type: none"> - Accounting policies will need to be aligned to changes identified in IPSAS - AT are currently awaiting AC's draft of the revised accounting policies for the introduction of IPSAS and other proposed changes to AC's accounting policies
Restatement of December 2013 and June 2014 Financial Statements	<ul style="list-style-type: none"> - Restatement of financials will include the split of revenue and receivables between exchange and non-exchange

Standard	Key Differences
<p>Exchange/Non Exchange Revenue (PBE IPSAS 9 and PBE IPSAS 23)</p>	<ul style="list-style-type: none"> - One of the main differences of IPSAS, compared to the current reporting standards applied by AT, are around the classification of revenue between 'exchange' and 'non-exchange' - Exchange transactions are similar to commercial transactions when the exchange between the parties is of approximately equal value - Non-exchange transactions occur where there is not equal exchange, or where there is compulsion on one of the parties - Finance has reviewed all revenue general ledger accounts and classified them as either exchange or non-exchange revenue - Revenue that has been classified as non-exchange transactions are: <ul style="list-style-type: none"> • Operating funding from AC • Capital funding from AC • Operating funding from NZTA • Capital funding from NZTA • Parking infringement revenue • Petrol tax • Vested asset income - The classification of exchange or non-exchange can result in a different timing for the recognition of revenue, as non-exchange revenue is recognised when it is probable, and can be measured reliably - Operating and Capital funding from AC is currently identified to have a different timing of recognition under IPSAS, when it is probable and can be reliably measured in July. This is only a timing issue, and will only impact half-year accounts. - Finance is working with Audit NZ to confirm the recognition of non-exchange revenue, and the presentation of revenue in the financial statements - AC have also prepared a paper looking into the group's major revenue streams. This has been issued to Audit New Zealand and SOLGM for feedback. - We are also required to disclose separately 'receivables from exchange transactions' and 'receivables from non-exchange transactions'


Standard	Key Differences
Related Parties (PBE IPSAS 20)	<ul style="list-style-type: none"> - We are working through the standard to identify additional reporting requirements for AT. We have currently identified the following changes to the reporting requirements, however these are not expected to have major implications on reporting requirements: <ul style="list-style-type: none"> • An entity shall disclose any transactions with close family members of key management personnel, which are not part of a normal supplier or client/recipient relationship • An entity shall disclose the aggregate remuneration of key management personnel and the number of individuals within this category (on a full-time equivalent basis)
Impairment of Cash and Non-Cash Generating Assets (PBE IPSAS 26)	<ul style="list-style-type: none"> - Impairment cannot be recognised on revalued assets - We will be reviewing AT's financial statements for potential scenarios where our treatment under IPSAS may be different to what it was under IFRS

Next steps

We will work with Audit NZ and AC to ensure we provide the required disclosures for the AC half-year reporting pack.

We will provide an update to the Board on final impacts agreed with Audit NZ, in preparation for the completion of the June 2015 Annual Report.

Document ownership

Submitted by	Julian Michael Financial Reporting Manager	
Recommended by	Stephen Smith Group Manager Finance Richard Morris Chief Financial Officer	 
Approved for submission	David Warburton Chief Executive	

Glossary

Acronym	Description	Business Unit
XRB	External Reporting Board	
PBE	Public Benefit Entities	
IPSAS	International Public Sector Accounting Standards	
IFRS	International Financial Reporting Standards	
SOLGM	New Zealand Society of Local Government Managers	