Model financial statements: Crown Service Enterprise – Commentary

Commentary for 30 June 2021 reporting by Crown entities

The most currently available model financial statements for Crown Service Enterprise (CSE) are for the year ended 30 June 2019. Other than the adoption of PBE IPSAS 39 *Employee Benefits* and the limited number of disclosures discussed below, these model financial statements remain relevant for Crown entities' financial statements for the year ended 30 June 2021.

The table below notes the updates to those disclosures in the 2019 model financial statements that should be considered by Crown entities in preparing their 30 June 2021 financial statements.

The yellow highlight indicates the disclosure concessions available under the reduced disclosure regime.

We provide comments below on reporting matters related to the 30 June 2021 financial statements:

- Early adoption of PBE IFRS 9 in 2018/19 financial statements;
- Standards issued and not yet effective and not early adopted;
- Adoption of PBE IPSAS 39; and
- Impact of Covid-19.

2019 model section	Discussion
Various	Consistent with the Financial Statements of the Government, CSE elected to early adopt PBE IFRS 9 *Financial Instruments* in the 30 June 2019 financial statements. The disclosures in the model financial statements about early adoption are no longer relevant. The following disclosures are affected: • Note 1 Statement of accounting policies – Standard early adopted. Remove the reference to PBE IFRS 9. However, if Crown entities have early adopted other accounting standards then this should be disclosed accordingly. • Note 8 Receivables – remove the Previous accounting policy for impairment of receivables and the PBE IFRS 9 expected credit loss adjustment line in the movement in the allowance for credit losses note. • Note 9 Investments – remove the Previous accounting policy for equity investments.

2019 model section	Discussion
	• Note 25 Adoption of PBE IFRS 9 Financial Instruments – this note is no longer applicable.
Note 1 Statement of accounting policies – Standards issued and not yet effective and not early adopted	The disclosure about PBE IPSAS 34 to 38 is no longer relevant because this was effective for the 30 June 2020 financial statements. The disclosures for PBE IPSAS 2 and PBE IPSAS 41 have been updated below to clarify when they will be effective and the impact on CSE. ***Amendment to PBE IPSAS 2 Cash Flow Statement*** *An amendment to PBE IPSAS 2 requires entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. This amendment is effective for the year ending 30 June 2022, with early application permitted. This amendment will result in additional disclosures. CSE does not intend to early adopt the amendment.* ***PBE IPSAS 41 Financial instruments*** *PBE IPSAS 41 replaces PBE IFRS 9 Financial Instruments and is effective for the year ending 30 June 2023, with earlier adoption permitted. CSE has assessed that there will be little change as a result of adopting the new standard, as the requirements are similar to those contained in PBE IFRS 9. CSE does not intend to early adopt the standard.* In August 2020, the New Zealand Accounting Standards Board approved deferral of the adoption date of PBE FRS 48 *Service Performance Reporting* by one year to reporting periods beginning on or after 1 January 2022. Updated illustrative text for PBE FRS 48 is provided below for Crown entities that have not early adopted PBE FRS 48. ***PBE FRS 48 Service Performance Reporting*** *PBE FRS 48 replaces the service performance reporting requirements of PBE IPSAS 1 Presentation of Financial Statements and is effective for the year ending 30 June 2023, with earlier adoption permitted. CSE has not yet determined how application of PBE FRS 48 will affect its statement of performance. It does not plan to early adopt the standard.*
Various	As a result of the adoption of PBE IPSAS 39, the following changes are required: **Note 3 Personnel costs** The Defined Benefit Plan Contributors Scheme (the scheme) disclosures are updated below for the revised disclosure requirements for multi-employer plans accounted for as if they are a defined contribution plan. Additionally, the information on this scheme is moved to be after the Breakdown of personnel costs and further information table.

2019 model section	Discussion
PBE IPSAS 39.150	***Further information*** *Defined Benefit Plan Contributors Scheme* *The funding arrangements for the scheme are governed by section 44 of the National Provident Fund Restructuring Act 1990 and by a Trust Deed. This Act requires that any increase or decrease to the employer contribution rate should result in contributions being at a level which, on reasonable assumptions, is likely to achieve neither a surplus nor deficit in the trust fund of the scheme at the time that the last contributor to that scheme ceases to so contribute. The Trust Deed specifies that immediately before the scheme is wound up, the assets and the interests of all contributors in the scheme will be transferred to the DBP Annuitants Scheme. Employers have no right to withdraw from the plan.* *In practice, at present, a single contribution rate is determined for all employers, which is expressed as a multiple of the contributions of members of the scheme who are employees of that employer. The current employer contribution rate is three times contributor contributions, inclusive of Employer Contribution Withholding Tax. The Actuary has recommended a stepped approach to changing the employer contribution rate, as follows:* • *1 April 2021 - 31 March 2022: Four times contributor contributions* • *From 1 April 2022: Five times contributor contributions* *There is no minimum funding requirement.* *As at 31 March 2020,[1] the scheme had a past service deficit of $2.80 million or 4.1% of the liabilities (2019: $1.80 million or 1.9% of the liabilities). This amount is exclusive of Employer Superannuation Contribution Tax. This deficit was calculated using a discount rate equal to the expected return on the assets but otherwise the assumptions and methodology were consistent with the requirements of PBE IPSAS 39 Employee Benefits.* *The scheme had 110 members as at 31 March 2020. Three of these are employees of CSE.* The accounting policies for short-term employee entitlements and long-term employee entitlements are updated below to reflect the amended short-term employee benefit definition of PBE IPSAS 39. **Note 17 Employee entitlements** ***Accounting policy***
PBE IPSAS 39.8,9,11,13	*Short-term employee entitlements* *Employee entitlements that are expected to be settled wholly before 12 months after the end of the reporting period in which the employees render the related service are measured based on accrued entitlements at current rates of pay.* …

[1] The actual information as at 31 March 2021 should be disclosed once available from the website of the National Provident Fund. The information in this disclosure is based on the actual 31 March 2020 information provided by the National Provident Fund.

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<tr><th>2019 model section</th><th>Discussion</th></tr>
<tr><td>PBE IPSAS 39.155-160</td><td> Long term employee entitlements Employee entitlements that are not expected to be settled wholly before 12 months after the end of the reporting period in which the employees render the related service, such as retirement and long service leave, have been calculated on an actuarial basis. The calculations are based on: … Note 19 Contingencies The Defined Benefit Plan Contributors Scheme disclosure is moved to Note 3 Personnel costs. </td></tr>
<tr><td>New note on Covid-19</td><td> A new note to explain the impact of the Covid-19 pandemic on CSE. Crown entities will need to ensure that their disclosure appropriately captures their specific facts and circumstances. An illustrative disclosure for CSE is provided below. Impact of Covid-19 During August and September 2020 and February and March 2021, the Auckland region moved into Alert Levels 3 and 2 and other parts of the country moved into Alert Level 2. Towards the end of June 2021, the Wellington region moved into Alert Level 2 for one week. Impact on operations CSE has an office in Auckland, so this meant that, where possible, its Auckland staff worked from home when the Auckland region was at Alert Level 3. CSE was still able to carry out most its services except for training courses as noted below. Training course revenue Under Alert Levels 3 and 2, CSE could not provide face-to-face training because of the restrictions on social distancing and the number of people at gatherings and, as a consequence of this, revenue from training courses has decreased by 20% compared with the prior year. Valuation of land and buildings In the prior year, as a result of Covid-19, CSE’s property valuer included a significant market uncertainty statement in their valuation for land and non-specialised buildings as at 30 June 2020. In respect of the 30 June 2021 valuations of land and non-specialised buildings, the valuer has indicated that there is not a significant market uncertainty as a result of Covid-19. Receivables impairment The Covid-19 pandemic reduced the ability of some debtors to pay, which is likely to be a short-term impact. As a result, the expected credit loss rates have been increased (refer to Note 8). </td></tr>
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Audit New Zealand National Office
100 Molesworth Street
Thorndon
PO Box 99
Wellington 6140
Ph 04 496 3099
www.auditnz.parliament.nz