Model financial statements: Ministry of Public Accountability – Commentary

Commentary for 30 June 2022 reporting by government departments

The most currently available model financial statements for the Ministry of Public Accountability are for the year ended 30 June 2021. Other than the adoption of an amendment to PBE IPSAS 2 *Cash Flow Statements*, and the limited number of disclosures discussed below, these model financial statements remain relevant for government department financial statements for the year ended 30 June 2022.

In this commentary, we discuss the following issues:

- revaluations of property, plant, and equipment;
- accounting for software as a service (SaaS); and
- updates to model financial statement disclosures.

Revaluation of property, plant, and equipment

Economic factors – for example, inflation, escalation of costs, and increases in interest rates – could significantly affect fair value assessments and valuations of property, plant, and equipment this year.

Recent data has indicated some significant increases to the values of land and commercial buildings, and to replacement costs that are used in depreciated replacement cost valuations.

Government departments and their valuers will need to consider these economic factors and the impact of market/cost price movements on the fair value of property, plant, and equipment.

PBE IPSAS 17 *Property, Plant and Equipment* states that "Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date".

In some instances, this may mean a government department is required to complete an out-of-cycle full valuation. Where an out-of-cycle valuation is required, in some cases it is possible to book a valuation movement based on indicative movements from indices supported by expert advice. Government departments needing out-of-cycle valuations of one or more asset classes should discuss this with their Audit Director.

Accounting for software as a service (SaaS)

Entities can sometimes incur significant costs when implementing cloud computing arrangements. Until recently, there has been no specific guidance on this subject in New Zealand accounting standards.

An agenda decision issued by the IFRS Interpretations Committee (IFRIC) has provided some clarity on the accounting for certain costs in implementing such arrangements under the International Financial Reporting Standards (IFRS).

The IFRIC decision must be applied by for-profit entities. There is no formal interpretation by the International Public Sector Accounting Standards Board. However, we note that PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* says that entities may consider the IFRIC decision when developing their accounting policies for matters not covered by the PBE IPSAS standards. For public benefit entities, the agenda decision can be referred to in determining the accounting treatment because the underlying intangible asset standards are consistent between IFRS and PBE IPSAS.

The key issues are whether such costs should be:

- capitalised as an intangible asset and amortised;
- expensed when incurred; or
- expensed over the term of the SaaS arrangement (including capitalising as a prepaid service if paid upfront).

If a government department has material SaaS arrangements, it should carefully consider the accounting treatment for these costs when preparing the 30 June 2022 financial statements.

The Treasury has issued guidance on the accounting for SaaS arrangements: Guidance on Accounting for Software as a Service (SaaS) (treasury.govt.nz).

Updates to model financial statement disclosures

The table below notes the updates to those disclosures in the 2021 model financial statements that should be considered by government departments in preparing their 30 June 2022 financial statements.

The yellow highlight indicates the disclosures that are not required by entities that are eligible to apply the reduced disclosure regime (Tier 2).

2021 model section	**Discussion**
Note 1 Statement of accounting policies – New	An amendment to PBE IPSAS 2 *Cash Flow Statements* requires 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.

2021 model section	Discussion
amendment applied (PBE IPSAS 3.33)	We consider this disclosure is relevant to those Tier 1 reporting entities with: • material liabilities with cash flows that are, or will be, presented in the financing activities cash flow section of the statement of cash flows; and • non-cash amounts related to these liabilities that are more than trivial amounts. An example disclosure is provided below where a Tier 1 reporting entity discloses this information for the first time. **Accounting policies section:** ***New amendment applied*** *An amendment to PBE IPSAS 2 Cash Flow Statements 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. The new information required by this amendment has been disclosed in Note xx.* **Notes section:** Refer to an illustrative example disclosure after this table.
Note 1 Statement of accounting policies – Standards issued and not yet effective and not early adopted	The disclosure about the amendment to PBE IPSAS 2 *Cash Flow Statements* is no longer relevant because this is effective for the 30 June 2022 financial statements. The disclosures in the 2021 model financial statements for the standards below remain relevant for the 30 June 2022 financial statements. An update has been made to the PBE FRS 48 commentary about its potential impact. ***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. The Ministry 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.* ***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. The Ministry has determined the main impact of the new standard is that additional information will need to be disclosed on those judgements that have the most significant effect on the selection, measurement, aggregation, and presentation of service performance information.*
Note 3 Personnel costs	**Note 3 Personnel costs** *Defined Benefit Scheme* The Defined benefit scheme section in Note 3 will need to be updated for the actual information as at 31 March 2022, once available from the National Provident Fund website.

2021 model section	Discussion
Note 23 Impact of Covid-19 on the Ministry	While the risks and uncertainties associated with the Covid-19 pandemic have reduced since the 2020 and 2021 financial statements were prepared, we expect that government departments will continue to disclose information in their 2022 financial statements about the impact that Covid-19 has had on their operations and financial statements during the year, where this is significant. If applicable, the Covid-19 disclosures included in the 2021 financial statements will need updating to be relevant for the 2022 year.

The following is an illustrative example of a note providing a reconciliation of movements in liabilities arising from financing activities. Comparative information is not required when applying the amendment for the first time.

PBE IPSAS 2.55A

21D Reconciliation of movements in liabilities arising from financing activities
The table below provides a reconciliation between the opening and closing balance of finance lease liabilities.

	Finance Leases $000
Balance at 1 July 2021	601
Cash outflows	(76)
New leases	50
Balance at 30 June 2022	**575**

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