

# Model financial statements: Tutuki Tertiary Institute – Commentary

## Commentary for 31 December 2020 reporting by Te Pūkenga subsidiaries

The subsidiaries of Te Pūkenga—New Zealand Institute of Skills and Technology (Te Pūkenga subsidiaries) are new entities so this will be the first time they are preparing financial reports.

The most currently available model financial statements for Tutuki Tertiary Institute are for the year ended 31 December 2019.

Other than some limited changes and additional disclosures, these model financial statements remain relevant for the Te Pūkenga subsidiaries' financial statements for the period ended 31 December 2020.

We provide comments below on reporting matters related to the first report, including guidance on disclosures related to:

- [1 April 2020 statement of financial position;](#)
- [references to legislation;](#)
- [reporting entity;](#)
- [basis of preparation;](#)
- [PBE IPSAS 40 early adopted;](#)
- [standards issued and not yet effective;](#)
- [budget figures;](#)
- [government funding accounting policies;](#)
- [intangible assets;](#)
- [share capital;](#)
- [vesting and comparative information;](#) and
- [Covid-19.](#)

2019 model section	Discussion
First report – financial statements	<p>Audited financial statements are required. In particular, the financial statements of the Te Pūkenga subsidiaries shall (more commentary for certain matters is provided below):</p> <ul style="list-style-type: none"> <li>• cover the nine-month period 1 April 2020 to 31 December 2020;</li> <li>• include an opening statement of financial position as at 1 April 2020 on the face of the statement of financial position;</li> <li>• include budget financial information;</li> <li>• present both parent and group financial statements if it has subsidiaries (subject to materiality); and</li> <li>• include a disclosure to highlight the fact that a shorter period (nine months) is being reported.</li> </ul>
First report – statement of service performance	<p>Audited service performance information is required for the 12-month period 1 January 2020 to 31 December 2020. Separate reporting is not required for the three-month and nine-month periods.</p> <p>Te Pūkenga has requested that the service performance information also present the comparative information of the predecessor institutes of technology and polytechnics (ITP). Disclosure will need to highlight that these are for the predecessor ITP.</p>
Statement of financial position – 1 April 2020 opening statement of financial position  PBE IPSAS 40.50(a)	<p>The opening statement of financial position at 1 April 2020 is the predecessor ITP’s statement of financial position as at 31 March 2020 with any adjustments to conform to new or revised accounting policies (such as revising policies to align with the policies of the Te Pūkenga group). This statement shall be presented on the face of the statement of financial position as an additional column.</p>
Various – references to legislation	<p>The Education and Training Act 2020 came into force on 1 August 2020. It replaces the Education Act 1989. Consequently, some legislative references included in the model financial statement disclosures should be replaced as follows:</p> <ul style="list-style-type: none"> <li>• Note 1 Statement of accounting policies: Reporting entity and statement of compliance sections – The reference to the Education Act 1989 is now to the Education and Training Act 2020.</li> <li>• Note 2 Revenue: Accounting policy for Performance-Based Research Fund – The reference to section 159YA of the Education Act 1989 is now to section 425 of the Education and Training Act 2020.</li> <li>• Note 12 Property, plant, and equipment: Restrictions on title – The reference to the Education Act 1989 is now to the Education and Training Act 2020.</li> </ul> <p>There is also a consequential change to the land and building disposal process. The disclosure should now read <i>“Under the Education and Training Act 2020, the Institute is required to notify Te Pūkenga, who then obtains consent from the Secretary for Education, to dispose of land and buildings...”</i></p>

2019 model section	Discussion
	<ul style="list-style-type: none"> <li>Note 21 Equity: Capital management – The reference to the Education Act 1989 is now to the Education and Training Act 2020.</li> </ul>
<p>Note 1 Statement of accounting policies – Reporting entity</p>	<p>An example of the updated disclosure for the first paragraph is provided below.</p> <p><i>The [Name of company Limited] (the Institute) is a Crown entity subsidiary that is domiciled and operates in New Zealand. The Institute was established on 1 April 2020 and its immediate controlling entity is Te Pūkenga—New Zealand Institute of Skills and Technology, and the ultimate controlling entity is the New Zealand Crown. The relevant legislation governing the Institute’s operations includes the Education and Training Act 2020, the Crown Entities Act 2004, and the Companies Act 1993.</i></p>
<p>Note 1 Statement of accounting policies – Basis of preparation</p>	<p>The Te Pūkenga subsidiaries will continue in existence until 31 December 2022 when they will be disestablished and merged with Te Pūkenga. There are mechanisms in the legislation to amend this date for an individual subsidiary.</p> <p>The OAG’s guidance has advised that the financial statements of the Te Pūkenga subsidiaries should therefore be prepared on a going-concern basis (unless there is evidence to the contrary) for the period ended 31 December 2020, as the disestablishment is expected to be more than 12 months after the date when the financial statements are approved.</p> <p>Te Pūkenga has provided a standard disclosure about the duration of the subsidiaries for the basis of preparation section. The Te Pūkenga subsidiary should refer to this disclosure. However, further disclosures will be necessary if there are material uncertainties related to a Te Pūkenga subsidiary’s ability to continue as a going concern.</p>
<p>Note 1 Statement of accounting policies – New section on Reporting period</p>	<p>The reporting period for the financial statements is nine months. The Te Pūkenga subsidiaries are expected to disclose this fact. An example of the disclosure is provided below.</p> <p><b>Reporting period</b></p> <p><i>The Institute came into existence on 1 April 2020. Therefore, the reporting period for the financial statements is for the nine months from 1 April 2020 to 31 December 2020.</i></p>
<p>Note 1 Statement of accounting policies – New note for standard early adopted</p> <p>PBE IPSAS 40.126.1</p>	<p>Te Pūkenga has early adopted PBE IPSAS 40 <i>PBE Combinations</i> for the transfer of the predecessor ITP’s assets and liabilities to the Te Pūkenga subsidiaries. The Te Pūkenga subsidiaries would need to disclose that they have early adopted PBE IPSAS 40. Illustrative text is provided below.</p> <p><i>PBE IPSAS 40 PBE Combinations was issued in July 2019 and is effective for annual financial statements covering periods beginning on or after 1 January 2021. The Institute has early adopted PBE IPSAS 40 and applied the standard for the vesting of the predecessor ITP’s assets and liabilities to the Institute on 1 April 2020. Further information about the vesting is disclosed in Note [xx].</i></p>

2019 model section	Discussion
<p>Note 1 Statement of accounting policies – Standards issued and not yet effective and not early adopted</p>	<p>Other than as noted below, the standards issued and not yet effective disclosures of the most recent 2019 TEI model financial statements remain relevant.</p> <p>In August 2020, the New Zealand Accounting Standards Board approved deferral of the adoption date of PBE FRS 48 <i>Service Performance Reporting</i> by one year to reporting periods beginning on or after 1 January 2022. Illustrative text for PBE FRS 48 is provided below for those Te Pūkenga subsidiaries that have not early adopted PBE FRS 48.</p> <p><i>PBE FRS 48 Service Performance Reporting</i></p> <p><i>PBE FRS 48 replaces the service performance reporting requirements of PBE IPSAS 1 Presentation of Financial Statements and is effective for annual reporting periods beginning on or after 1 January 2022.</i></p> <p><i>The Institute has not yet determined how application of PBE FRS 48 will affect its statement of service performance. It does not plan to adopt the standard early.</i></p>
<p>Note 1 Statement of accounting policies – Budget figures</p>	<p>Budget information for the Te Pūkenga subsidiaries for the nine-month period shall be included in the financial statements. Where Te Pūkenga subsidiaries prepared budgets for the nine-month period ending 31 December 2020, these should be used.</p> <p>Where nine-month budgets were not prepared, and the 2020 budget of the predecessor ITP was broken down on a month-by-month basis, that budget should be used for the statement of comprehensive revenue and expense and the statement of cash flows.</p> <p>Where a month-by-month budget was not prepared, Te Pūkenga has agreed that the subsidiaries should pro-rata the 12-month budget of the predecessor ITP for the nine-month report to 31 December 2020.</p> <p>As the student achievement component (SAC) funding was recognised by the predecessor ITP, the budgeted amount is not included in the statement of comprehensive revenue and expense.</p> <p>Disclosures will need to highlight where the initial budget came from, who approved it, and the basis of preparation. An example of the disclosure is provided below.</p> <p><i>The budget figures for the Institute and group have been derived from the budget approved by the [Name of predecessor ITP]’s Council at the start of the 2020 financial year. Those budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted by the Board in preparing these financial statements. [If there are any significant differences in accounting policies, disclose these]. The approved budget was for the full 2020 year but, to be consistent with the nine-month reporting period, the month-by-month budget from April to December 2020 has been used for the nine-month period for the statement of comprehensive revenue and expense and the statement of cash flows. The student achievement component (SAC) and fees-free funding was recognised by the predecessor ITP. Therefore, no budget amount has been included in the statement of comprehensive revenue and expense.</i></p>

2019 model section	Discussion
<p>Note 2 Revenue: Accounting policies for Student Achievement Component funding and Fees-free revenue</p>	<p>The Minister of Education and the Tertiary Education Commission (TEC) agreed that the TEC will not recover the 2020 investment plan and fees-free funding because of either non-achievement of Education Performance Indicators or under-delivery during the 2020 year. In late March 2020, the TEC sent a letter to the predecessor ITPs to confirm this.</p> <p>The full 2020 Student Achievement Component funding and fees-free revenue was recognised by the predecessor ITP in the three-month period ended 31 March 2020.</p> <p>We have updated our suggested revenue accounting policies for these decisions, assuming no additional funding arose during the 2020 year, including for over-delivery.</p> <p><i>Student Achievement Component funding</i></p> <p><i>Student Achievement Component (SAC) funding is the Institute’s main source of operational funding from the Tertiary Education Commission (TEC). The Institute considers SAC funding to be non-exchange revenue and would normally recognise SAC funding as revenue when the course withdrawal date has passed, based on the number of eligible students enrolled in the course at that date and the value of the course. However, for the 2020 year, the predecessor ITP has recognised all the funding for 2020. This was because, in response to the Covid-19 pandemic, the TEC confirmed at the end of March 2020 that it will not seek repayment of 2020 investment plan funding, which includes SAC funding, if there is under-delivery in the 2020 year. As a consequence, the Institute has not recognised any SAC funding during the nine-month period.</i></p> <p><i>Fees-free revenue</i></p> <p><i>The Institute considers that fees-free revenue is non-exchange revenue and would normally recognise revenue when the course withdrawal date for an eligible student has passed. The Institute would present funding received as part of tuition fees. This is on the basis that receipts from the TEC are for payment on behalf of the student as specified in the relevant funding mechanism. However, for the 2020 year, the predecessor ITP has recognised all the 2020 fees-free funding because, in response to the Covid-19 pandemic, the TEC confirmed that it will not seek repayment of 2020 fees-free funding. As a consequence, the Institute has not recognised any fees-free funding during the nine-month period.</i></p>
<p>Note 13 Intangible assets</p> <p>PBE IPSAS 31.28(a)</p>	<p>Te Pūkenga has provided its accounting policy for course development costs to its subsidiaries. The Te Pūkenga accounting policy has more detailed guidance on recognition compared to the Tutuki Tertiary Institute accounting policy. The Te Pūkenga subsidiary should refer to the Te Pūkenga group accounting policy with our recommendation below and update its own accounting policy for consistency with the Te Pūkenga group policy.</p> <p>One of the recognition requirements for an intangible asset is that it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity. We recommend that “or service potential” be added after the reference to “future economic benefits”.</p>

2019 model section	Discussion
<p>Note 21 Equity</p> <p>PBE IPSAS 1.98(a)</p>	<p>Each Te Pūkenga subsidiary issued 100 shares to Te Pūkenga. A disclosure should be added explaining the share capital. An illustrative disclosure for this is provided below.</p> <p><i>Share capital</i></p> <p><i>On 1 April 2020, the Institute issued 100 shares to Te Pūkenga in accordance with clause 20(1)(c) of Schedule 1 to the Education and Training Act 2020. Each share carries one vote and an equal share in dividends and distribution of the Institute’s surplus assets.</i></p>
<p>New note on vesting and comparative information</p> <p>PBE IPSAS 40.54 PBE IPSAS 40.AG64(a)</p>	<p><b>Vesting</b></p> <p>A disclosure should be added explaining the accounting for the transfer of the assets and liabilities of the predecessor ITP to the Te Pūkenga subsidiary. An illustrative disclosure for this is provided below.</p> <p><i>Vesting</i></p> <p><i>As part of the reform of the delivery of vocational education in New Zealand, the Education (Vocational Education and Training Reform) Amendment Act 2020 converted the Tutuki Tertiary Institute into the Tutuki Tertiary Institute Limited on 1 April 2020. On this date, the rights, assets, and liabilities of Tutuki Tertiary Institute vested in Tutuki Tertiary Institute Limited for no consideration.</i></p> <p><i>The Tutuki Tertiary Institute Limited has applied PBE IPSAS 40 PBE Combinations to account for the vesting of the assets and liabilities. The carrying amount of assets, liabilities, and equity reserves included in Tutuki Tertiary Institute’s final disestablishment report as at 31 March 2020 were carried forward to become the opening balances for the Tutuki Tertiary Institute Limited’s statement of financial position at 1 April 2020. No adjustments were made to the amounts reported as at 31 March 2020 [or if there were adjustments, disclose information about these and the reasons for them, including adjustments to equity components]. The opening 1 April 2020 balances are presented in the statement of financial position.</i></p> <p><b>Comparative information</b></p> <p>This is the first year the Te Pūkenga subsidiaries came into existence. Therefore, there is no comparative financial information. PBE IPSAS 40 does permit the Te Pūkenga subsidiaries to disclose in the notes to the financial statements the comparative financial information of the predecessor ITP. The consolidation template provided by Te Pūkenga to its subsidiaries includes an illustrative example of a comparative information note to present this information for the statement of comprehensive revenue and expense and the statement of cash flows. This comparative information is not restated for any differences in the accounting policies between the predecessor ITP and the Te Pūkenga subsidiary. This comparative information should also be accompanied by:</p> <ul style="list-style-type: none"> <li>• how a user of the financial statements can access the 31 March 2020 and 31 December 2019 financial statements of the predecessor ITP; and</li> <li>• a description of significant differences in accounting policies between the predecessor ITP and the Te Pūkenga subsidiary. This description is not required if it is already disclosed under the vesting note above.</li> </ul>

2019 model section	Discussion
New note on Covid-19	<p>The Covid-19 pandemic has significantly affected the ITP sector and therefore will have an impact on the Institute’s 31 December 2020 financial statements and performance information. The Te Pūkenga subsidiaries will need to consider how to effectively communicate the impact of Covid-19 to the users of the financial statements and performance information, including the uncertainties regarding future impacts and providing additional disclosures when required by generally accepted accounting practice.</p> <p>When there are material uncertainties related to an Institute’s ability to continue as a going concern, specific disclosures about those uncertainties will need to be made. This includes information about the principal events or conditions giving rise to those material uncertainties and the governing body’s plans to mitigate these. PBE IPSAS 1 <i>Presentation of Financial Statements</i> paragraphs 38 to 41.2 provide further guidance on going-concern uncertainty disclosures.</p> <p>A suggested starting point for a Covid-19 financial statement disclosure is provided below. The Institute will need to ensure that its disclosure appropriately captures its specific facts and circumstances.</p> <p><b>Note [xx] The effects of Covid-19 on the Institute</b></p> <p>On 11 March 2020, the World Health Organisation declared the outbreak of Covid-19 a pandemic, and two weeks later the New Zealand Government declared a State of National Emergency. From this, the country was in lockdown at Alert Level 4 for the period 26 March to 27 April and then remained in lockdown at Alert Level 3 until 13 May.</p> <p>During this period, the Institute closed all delivery sites and brought forward the mid-semester break to align with the new timing of the school holidays in New Zealand. Most staff moved to a “work from home” model, and teaching was changed to online delivery after the mid-semester break.</p> <p>After 13 May, when New Zealand moved to lower Alert Levels, students were able to attend classes on-site or continue to access classes remotely.</p> <p>The effect on our operations is reflected in these financial statements based on the information available to the date these financial statements were approved.</p> <p>The main impacts on the Institute’s financial statements due to Covid-19 are explained below. This includes information about key assumptions concerning the future and other sources of estimation uncertainty due to Covid-19. The main impacts on the Institute’s performance measures are explained in the statement of service performance on page X.</p> <p>Government funding</p> <p>The TEC confirmed during March 2020 that 2020 funding for Investment Plans and Fees Free will continue, and that it will not recover 2020 funding because of either non-achievement of Education Performance Indicators or under-delivery during the 2020 year.</p>

2019 model section	Discussion
	<p>This provided the Institute with certainty that it could continue to deliver to students despite the disruption caused by Covid-19. As a consequence of this, <b>[Name of predecessor ITP]</b> recognised all the 2020 funding as revenue in its financial statements for the three-month period ended 31 March 2020. The Institute has not recognised any SAC funding or fees-free revenue during the period.</p> <p>Student numbers and fees revenue</p> <ul style="list-style-type: none"> <li>• <i>[Disclose information about the extent of change in international and domestic student numbers and fee revenue and, if the revenue decrease is substantial, the Institute’s actions and plans in response].</i></li> </ul> <p>Accommodation revenue</p> <ul style="list-style-type: none"> <li>• <i>[Disclose information about any significant changes in accommodation revenue].</i></li> </ul> <p>Operating expenses</p> <p>As a result of Covid-19, the Institute has incurred additional expenditure of \$ ... on:</p> <ul style="list-style-type: none"> <li>• <i>[Describe the significant impacts on operating expenses, such as additional costs of implementing alternative methods of delivery to students, changed working arrangements, or any restructuring or redundancy costs. Also explain any significant responses to additional costs and any significant cost savings achieved such as travel costs].</i></li> </ul> <p>Valuation of investment property</p> <ul style="list-style-type: none"> <li>• <i>[When a property valuer includes a material valuation uncertainty statement in their valuation report, provide information about this]. Further information about the key valuation assumptions used in estimating the fair value of investment property at 31 December 2020 are provided in [cross-reference to investment property note].</i></li> </ul> <p>Valuation of land and buildings</p> <ul style="list-style-type: none"> <li>• <i>[When a property valuer includes a material valuation uncertainty statement in their valuation report or their fair value assessment report, provide information about this].</i></li> <li>• <i>Further information about the key valuation assumptions used in estimating the fair value of land and buildings at 31 December 2020 are provided in [cross-reference to the property, plant, and equipment note].</i></li> </ul> <p>Impairment of tangible and intangible assets</p> <ul style="list-style-type: none"> <li>• <i>An impairment assessment has been completed for tangible and intangible assets. The result of this assessment was [explain whether any impairment loss has been recognised and cross-reference to where the impairment disclosures are made].</i></li> </ul>



2019 model section	Discussion
	<p><i>Other</i></p> <ul style="list-style-type: none"> <li>• <i>[Include information on any other financial statement item that has been significantly affected. For example:</i> <ul style="list-style-type: none"> <li>○ <i>Financial investments, such as significant fair value movements in bonds, shares, or funds before and after balance date.</i></li> <li>○ <i>Debtors, such as significant provisions for impairment.]</i></li> </ul> </li> </ul> <p>If the information on the impact of Covid-19 on an Institute’s operations and the Institute’s response to Covid-19 is provided outside of the financial statements (for example, in the Chief Executive’s report or other management discussion and analysis in the Annual Report), then the financial statements can cross-reference to this information.</p>
<p>Note 26 Adoption of PBE IPSAS 34 – PBE IPSAS 38</p>	<p>Adoption of PBE IPSAS 34 – PBE IPSAS 38 was required no later than the year to 31 December 2019, so these disclosures are not required to be repeated in the 31 December 2020 financial statements.</p>
<p>Appendix 1: Disclosure consequences of ITP reforms</p>	<p>This Appendix is no longer applicable.</p>
<p>Appendix 2: PBE IFRS 9</p>	<p>PBE IFRS 9 <i>Financial Instruments</i> was available for early adoption if the entity’s initial application was before 1 January 2020. The Te Pūkenga subsidiaries were not in existence at this date so cannot early adopt PBE IFRS 9.</p> <p>We understand that the Te Pūkenga subsidiaries will apply PBE IPSAS 29 <i>Financial Instruments: Recognition and Measurement</i> rather than early adopt PBE IPSAS 41 <i>Financial Instruments</i>.</p> <p>The disclosures in Appendix 2 are not applicable for the period ended 31 December 2020.</p>

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