**Supporting Papers June 2018**

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EXTERNAL REPORTING BOARD
*Te Kāwai Ārahi Pūrongo Mōwaho*

5 September 2016

# External Reporting Board Policy for dealing with audit reports received under the Companies Act 1993 and the Financial Markets Conduct Act 2013

## Purpose of the Policy

1. The Companies Act 1993 and the Financial Markets Conduct Act 2013 both require an auditor to send a copy of the audit report, and a copy of the financial statements or group financial statements, to the External Reporting Board (XRB), and other specified parties, if the financial reporting requirements of the respective Acts have not been complied with. However, the two Acts are silent on the purpose of the provisions and on the actions, if any, that the XRB (and the other specified parties) must take when it receives the audit reports.

2. This Policy sets out the processes that the Board of the XRB and its sub-Boards, the New Zealand Accounting Standards Board (NZASB) and the New Zealand Auditing and Assurance Board (NZAuASB), will follow when audit reports are sent to the XRB by auditors in accordance with the Companies Act 1993 and the Financial Markets Conduct Act 2013. The Policy also applies when audit reports are referred to the XRB by any other party.

## Policy[1]

3. Audit reports received by the XRB will be reviewed by both the NZASB and the NZAuASB.

4. The NZASB's review will be focused on modified audit opinions in relation to material misstatements in the financial statements.

5. The NZAuASB's review will be focused on modified audit opinions in relation to when the auditor has been unable to obtain sufficient audit evidence.

6. Where the reviews raise issues or trends that relate to XRB strategy, these will be referred to the XRB Board for consideration.

7. Reviews by the NZASB and the NZAuASB will consider implications for the relevant standards by ensuring that the modified audit opinions do not raise any issue about the appropriateness, applicability, clarity and/or completeness of the relevant standards.

8. No action needs to be taken by the XRB, the NZASB or the NZAuASB if the modification of the audit opinion results from non-compliance by an entity of an otherwise appropriate standard (that is, a standard that is applicable, clear, complete and has

[1] The Background and Basis for the Policy is set out in Appendix 1.

appropriate accompanying guidance). Such non-compliance is a matter for the appropriate regulator to deal with.

9. Where the modification of the audit opinion has implications for standards, the NZASB and the NZAuASB will consider their respective standards' convergence and/or harmonisation policies. Matters raised may need to be addressed through, or in cooperation, relevant international standards Boards rather than unilaterally, or, where appropriate, through the provision of additional New Zealand guidance.

10. The actions that may be taken by the NZASB and/or the NZAuASB where the modified audit opinions have implications for any XRB standards include, for example:

    a. amend a domestic standard;
    b. raise an issue with the relevant international standards board;
    c. issue guidance; and/or
    d. re-examine the initial cost-benefit analysis undertaken when the relevant standard was developed.

11. Reviews by the XRB Board (when necessary) will consider the implications for the XRB strategy to ensure that the multi-standards, multi-tier system remains appropriate. The actions that the XRB Board may take where the modified audit opinions have implications for XRB strategy and/or the standards frameworks include, for example:

    a. Review the XRB strategy and/or standards frameworks;

    b. Refer a matter an appropriate party for their further action (for example, the regulators and/or policy makers);

    c. Refer a matter to the appropriate professional body after consultation with the regulators (for example in the rare and unusual circumstances where an audit qualification was considered to be incorrect);

    d. Engage with or liaise with policy makers and/or regulators;

    e. Engage with relevant organisations or industries directly and after consultation with the regulators, to determine the cause of the non-compliance, before taking any further action (for example, where the modified audit opinions indicate a trend of persistent non-compliance by a particular industry or with a particular standard); and/or

    f. Engage with auditors on their duties under the Companies Act 1993 and the Financial Markets Conduct Act 2013 to send audit reports with modified audit opinions to the XRB.

12. In each instance before the XRB Board takes any action, it would, where necessary, liaise with the regulators and/or policy makers.

**Review of this Policy**

13. This Policy will be reviewed every three years to ensure that it is still appropriate.

## Appendix 1: Background and Basis for the Policy

### *Legislative provisions*

1. The Companies Act 1993 and the Financial Markets Conduct Act 2013 both require an auditor to send a copy of the audit report, and a copy of the financial statements or group financial statements, to the XRB (and other specified parties) if the financial reporting requirements of the respective Acts have not been complied with. However, the two Acts are silent on the purpose of the provisions and on the actions, if any, that the XRB (and the other specified parties) must take when it receives the audit reports.

*Companies Act 1993*

2. Part 11 of the Companies Act 1993 specifies, among other matters, the requirements for a company's financial reporting and audit of its financial statements. It specifies the companies that must prepare financial statements, and that those financial statements must comply with generally accepted accounting practice (GAAP)[2]. Part 11 also specifies whose financial statements must be subject to audit and that the audit must be carried out in accordance with applicable auditing and assurance standards[3]. GAAP, applicable financial reporting standards and applicable auditing and assurance standards are defined in the Companies Act 1993 by reference to the Financial Reporting Act 2013. GAAP, applicable financial reporting standards and applicable auditing and assurance standards in the Financial Reporting Act 2013 refer to standards issued by the XRB[4].

3. Within Part 11, section 207C of the Companies Act 1993 provides that the auditor's report of a company must be sent to the Registrar of Companies and the XRB if the requirements of the Companies Act 1993 have not been complied with:

> "*If the auditor's report indicates that the requirements of this Act have not been complied with, the auditor must, within 7 working days after signing the report, send a copy of the report and a copy of the financial statements or group financial statements to which it relates to the Registrar and the External Reporting Board*".

4. In the context of the requirements of Part 11 of the Companies Act 1993 about audits of a company's financial statements, the reference to non-compliance with "*the requirements of this Act*" in section 207C is read to mean non-compliance with applicable financial reporting standards and applicable auditing and assurance standards.

*Financial Markets Conduct Act 2013*

5. Part 7 of the Financial Markets Conduct Act 2013 sets out the financial reporting requirements of an "FMC reporting entity"[5], including the requirements for the

[2] Sections 200 – 202 of the Companies Act 1993.
[3] Sections 206 – 207A of the Companies Act 1993.
[4] Section 5 of the Financial Reporting Act 2013.
[5] The meaning of an "FMC reporting entity" is set out in section 451 of the Financial Markets Conduct Act 2013.

preparation[6] and audit of the financial statements[7]. Financial statements of an FMC reporting entity must comply with GAAP[8] and the audit of those financial statements must comply with applicable auditing and assurance standards[9].

6. Similar to the Companies Act 1993, GAAP, applicable financial reporting standards and applicable auditing and assurance standards are defined in the Act by reference to the Financial Reporting Act 2013 (and hence refer to standards issued by the XRB).

7. Within Subpart 3 *Preparation, audit, and lodgement of financial statements* of Part 7 *Financial reporting* of the Financial Markets Conduct Act 2013, section 461G on the auditor's report states:

> *"(1) The auditor's report on the financial statements or group financial statements that are required to be audited under this subpart must comply with the requirements of all applicable auditing and assurance standards.*
>
> *(2) If the auditor's report indicates that the requirements of this Part have not been complied with, the auditor must, within 7 working days after signing the report, send a copy of the report, and a copy of the financial statements or group financial statements to which it relates, to—*
>
> *(a) the FMA; and*
>
> *(b) the External Reporting Board; and*
>
> *(c) in the case of an issuer of debt securities or a manager of a registered scheme, the supervisor."*

8. In the context of the requirements of Subpart 3 of Part 7 of the Financial Markets Conduct Act 2013 about financial statements and audit of an FMC reporting entity's financial statements, the reference to non-compliance with "*the requirements of this Part*" in section 461G is read to mean non-compliance with the applicable financial reporting standards and applicable auditing and assurance standards.

## Functions of the XRB

9. The functions of the XRB are set out in the Financial Reporting Act 2013. Section 12 of the Financial Reporting Act 2013 provides:

> *"The Board has the following functions:*
>
> *(a) to prepare and, if it thinks fit, issue financial reporting standards for the purposes of any enactment that requires—*
>
> *(i) financial statements or group financial statements to comply, or be prepared in accordance, with generally accepted accounting practice or non-GAAP standards; or*
>
> *(ii) a statement, report, or other information to comply, or be prepared in accordance, with financial reporting standards:*
>
> *(b) to prepare and, if it thinks fit, issue auditing and assurance standards for—*

[6] Sections 460 – 461 of the Financial Markets Conduct Act 2013.

[7] Section 461D of the Financial Markets Conduct Act 2013.

[8] Sections 460 – 461 of the Financial Markets Conduct Act 2013.

[9] Sections 461F – 461G of the Financial Markets Conduct Act 2013.

*(i) the purposes of the Auditor Regulation Act 2011 or any other enactment that requires a person to comply with those standards; or*

*(ii) the purposes of any rules or codes of ethics of an association of accountants where those rules or codes require the association's members to comply with those standards; or*

*(iii) any other purpose approved by the Minister by notice in writing to the Board:*

*(c) to prepare and, if it thinks fit, issue authoritative notices for the purposes of the definition of generally accepted accounting practice:*

*(d) to develop and implement strategies for the issue of standards in order to provide a framework for the Board's overall direction in the setting of standards (including implementing a strategy for tiers of financial reporting in accordance with sections 29 to 33):*

*(e) to liaise with international or national organisations that perform functions that correspond with, or are similar to, those conferred on the Board:*

*(f) to perform and exercise the functions, duties, and powers conferred or imposed on it by or under this Act and any other enactments."*

**Interpretation of the legislative intent of the provisions of the Companies Act and the Financial Markets Conduct Act for the XRB**

10. In determining the intent of legislation in providing for the XRB to receive the audit reports under section 207C of the Companies Act 1993 and Section 461G of the Financial Markets Conduct Act 2013, regard needs to be had to the functions (and role) of the XRB under the Financial Reporting Act 2013.

11. Under the Financial Reporting Act 2013, the key function of the XRB is the setting of accounting and auditing & assurance standards, and the development and implementation of a strategy for an accounting standards framework (XRB strategy). The standard-setting and strategic functions of the XRB are in contrast to the functions of the other specified parties. Those parties have, among other functions, regulatory powers to take enforcement action (where necessary). The functions of the XRB do not extend to the ability to take enforcement action against an entity's non-compliance with the respective Acts. Therefore, unlike the other specified parties, the XRB does not have a legislative responsibility to take any direct regulatory action or make contact with the preparers or auditors of the financial statements about any aspect of the non-compliance.

12. Any action the XRB takes in relation to receiving the audit reports should be consistent with the XRB's role and functions: the actions taken should be for the primary objective of assessing, based on the nature of the non-compliance, whether the non-compliance set out in the audit reports indicates a need to clarify and/or modify accounting standards, auditing & assurance standards and/or the XRB strategy.

**What type of audit opinions are we concerned with?**

13. Audit reports may contain unmodified audit opinions (unqualified opinions) or modified audit opinions (qualified opinions, adverse opinions or disclaimers of opinion).

14. In the context of the requirements of section 207C of the Companies Act 1993 and section 461G of the Financial Markets Conduct Act 2013, audit reports that are sent to the XRB would be all audit reports that contain modified audit opinions. These would be audit reports that contain audit opinions that indicate non-compliance with the financial reporting and/or audit requirements of the Companies Act 1993 or the Financial Markets Conduct Act 2013.

15. Accounting standards require financial statements to present fairly the financial position, financial performance and cash flows of an entity. There is a presumption in accounting standards that application of applicable financial reporting standards, with additional disclosures when necessary, results in financial statements that achieve such a fair presentation[10]. In auditing standards[11], the recognition of this presumption requires the financial reporting framework that is used to be a "fair presentation framework". Auditing standards acknowledge that in complying with a fair presentation framework, additional disclosures may sometimes be necessary and, in extremely rare circumstances, departures may also be necessary.

16. Auditing standards[12] set out the types of modified audit opinions and the circumstances when a modification of an audit opinion is required. An auditor is required to modify the opinion in the auditor's report when:

    a. The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or

    b. The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

17. A material misstatement of the financial statements, based on the audit evidence obtained, may arise in relation to:

    a. The appropriateness of the selected accounting policies;

    b. The application of the selected accounting policies; or

    c. The appropriateness or adequacy of disclosures in the financial statements.

18. A material misstatement of the financial statements, based on auditor's inability to obtain sufficient appropriate audit evidence (also referred to as "a limitation on the scope of the audit"), may arise in relation to:

    a. Circumstances beyond the control of the entity;

    b. Circumstances relating to the nature or timing of the auditor's work; or

    c. Limitations imposed by management.

19. The XRB's interest (and ability to take some action) is more likely to be in those modified audit opinions that indicate material misstatements in the financial statements that arise from audit evidence obtained by the auditor. As these modified

[10] NZ IAS 1 *Presentation of financial statements* and PBE IPSAS 1 *Presentation of financial statements*.
[11] ISA(NZ) 700 *Forming an opinion and reporting on financial statements.*
[12] See ISA(NZ) 700 *Forming an opinion and reporting on financial statements*.

opinions focus on material misstatements in financial statements, the issues that arise are more likely to be related to accounting standards (than to auditing & assurance standards or the XRB strategy).

20. The XRB interest (and ability to take action) is less likely in relation to the audit reports received that cover modified opinions that arise from "a limitation on the scope of an audit". This is because these are often more likely to arise from "practical" issues and are often less likely to arise as a direct result of applying, or not applying, XRB standards or the XRB strategy. Therefore, the XRB is less likely to need to modify accounting standards, auditing & assurance standards or the XRB strategy or take other action (for example, issuing further guidance) in response to this type of modified audit report.

21. Nevertheless, limitations imposed by management may be related to, for example, the governing body considering that an accounting standard requirement is not practicable. Similarly, while auditors not complying with auditing & assurance standards falls, prima facie, within the role of the regulator to take action (rather than within the role of the XRB), such non-compliance may indicate that further guidance is required.

22. As such, for the purpose of this policy, all modified audit opinions will be reviewed to determine if any XRB action is required.

**What entities and standards are involved?**

23. The Companies Act 1993 covers all companies incorporated under that Act. These may be for-profit companies or public benefit entities (PBEs).

24. The Financial Markets Conduct Act 2013 covers FMC reporting entities. These may be entities under any organisational structure (companies, credit unions, building society etc).

25. Entities under both Acts may be in:

    a. For-profit Tier 1 and Tier 2[13]; or
    b. PBE Tier 1, Tier 2 or Tier 3[14].

26. Therefore, the modified audit opinions could potentially affect all the accounting standards (except the Tier 4 standards) and all auditing & assurance standards issued by the XRB.

[13] A Tier 2 for-profit entity that is not an FMC reporting entity may opt out of the audit requirements.

[14] A Tier 4 PBE is not required to have an audit. A Tier 3 PBE with expenses of less than $1 million is also not required to have an audit.

**Exposure Draft 65**
**April 2018**
***Comments due: July 15, 2018***

IPSAS®

*Proposed International Public Sector Accounting Standard ®*

# Improvements to IPSAS, 2018

IPSASB International Public Sector Accounting Standards Board®

This document was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening the transparency and accountability of public sector finances.

In meeting this objective the IPSASB sets IPSAS® and Recommended Practice Guidelines (RPGs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

IPSAS relate to the general purpose financial statements (financial statements) and are authoritative. RPGs are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. Unlike IPSAS RPGs do not establish requirements. Currently all pronouncements relating to GPFRs that are not financial statements are RPGs. RPGs do not provide guidance on the level of assurance (if any) to which information should be subjected.

The structures and processes that support the operations of the IPSASB are facilitated by the International Federation of Accountants® (IFAC®).



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# REQUEST FOR COMMENTS

This Exposure Draft, *Improvements to IPSAS, 2018*, was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by July 15, 2018.**

Respondents are asked to submit their comments electronically through the IPSASB website, using the "Submit a Comment" link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. This publication may be downloaded from the IPSASB website: www.ipsasb.org. The approved text is published in the English language.

# IMPROVEMENTS TO IPSAS, 2018

## CONTENTS

# PART I: GENERAL IMPROVEMENTS TO IPSAS

## Objective

1. The objective of Part I of the Exposure Draft is to propose improvements to IPSAS in order to address issues raised by stakeholders.

## Request for Comments

2. The IPSASB would welcome comments on all the changes proposed in the Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

## IPSAS Addressed

3. The Improvements project deals with non-substantive changes to IPSAS through a collection of amendments which are unrelated. Amendments included in Part I arise from comments received from stakeholders.

**Improvements to IPSASs**

| IPSAS Standard | Summary of Proposed Change |
|---|---|
| IPSAS 10, *Financial Reporting in Hyperinflationary Economies*;<br>IPSAS 22, *Disclosure of Financial Information about the General Government Sector*;<br>IPSAS 24, *Presentation of Budget Information in Financial Statements* | Replacement of the term “primary financial statements” (which is not defined in IPSAS) with the term “financial statements” (which is a defined term) to ensure consistency within the Standards and across all IPSAS. |
| IPSAS 16, *Investment Property* | Update the requirements regarding the transfer of investment property when an entity completes the construction or development of a self-constructed investment property that will be carried at fair value. Following the amendments made by *Improvements to IPSASs* issued in January 2010, investment property under construction is within the scope of IPSAS 16, and hence is not transferred from another class of asset on completion of the construction. Paragraph 76, which refers to a transfer following completion of the construction or development of a self-constructed investment property, is therefore deleted. |
| IPSAS 16, *Investment Property*;<br>IPSAS 17, *Property, Plant, and Equipment* | Transitional disclosure requirements amended to ensure consistency with other amendments made by IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards*. |

| **IPSAS Standard** | **Summary of Proposed Change** |
|---|---|
| IPSAS 31, *Intangible Assets* | Extend the requirement to consider whether reassessing the useful life of an intangible asset as finite rather than indefinite is an indicator that the asset may be impaired to include revalued intangible assets, following the publication of *Impairment of Revalued Assets* (Amendments to IPSAS 21, *Impairment of Non-Cash-Generating Assets*, and IPSAS 26, *Impairment of Cash-Generating Assets*). |
| IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* | Clarify that the exemption from providing comparative information applies only to the first financial statements issued following the adoption of accrual basis IPSAS. |
| IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* | Update the Basis for Conclusions and Implementation Guidance to reflect the fact that relief from the requirement to disclose experience adjustments in respect of defined benefit schemes is no longer required. This disclosure is required by IPSAS 25, *Employee Benefits*, but was not carried forward to the replacement Standard, IPSAS 39, *Employee Benefits*. |
| IPSAS 34, *Separate Financial Statements* | Amendments to correct the measurement and presentation of controlled investment entities in the separate financial statements of controlling entities that are not themselves investment entities. |

## Amendment: Part I-1a

## Amendments to IPSAS 10, *Financial Reporting in Hyperinflationary Economies*

Paragraphs 1A and 9 are amended and paragraph 38F is added. New text is underlined and deleted text is struck through.

…

## Scope

1A. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard to the ~~primary~~ financial statements, including the consolidated financial statements, of any entity whose functional currency is the currency of a hyperinflationary economy.**

…

9. In a hyperinflationary economy, financial statements are useful only if they are expressed in terms of the measuring unit current at the reporting date. As a result, this Standard applies to the ~~primary~~ financial statements of entities reporting in the currency of a hyperinflationary economy. Presentation of the information required by this Standard as a supplement to unrestated financial statements is not permitted. Furthermore, separate presentation of the financial statements before restatement is discouraged.

…

## Effective Date

…

38F. **Paragraphs 1A and 9 were amended by [draft] *Improvements to IPSAS, 2018*, issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, [Year]. Earlier application is permitted.**

…

## Basis for Conclusions

…

**Revision of IPSAS 10 as a result of [draft] *Improvements to IPSAS, 2018***

BC3. Paragraphs 1A and 9 referred to the "primary financial statements." Stakeholders have raised concerns that this term is not defined in IPSAS and could therefore cause confusion. The IPSASB noted that the term "financial statements" is used elsewhere in IPSAS with the same meaning. Similarly, IAS 29, *Financial Reporting in Hyperinflationary Economies*, uses the term "financial statements" rather than "primary financial statements" in its equivalent paragraphs. Consequently the IPSASB agreed to standardize the terminology and to replace the term "primary financial statements" with the term "financial statements" wherever this term occurred.

## Amendment: Part I-1b

## Amendments to IPSAS 22, *Disclosure of Financial Information about the General Government Sector*

Paragraph 37 is amended and paragraph 47E is added. New text is underlined and deleted text is struck through.

…

## Disclosure

37. This Standard requires disclosure of the major classes of assets, liabilities, revenues, expenses, and cash flows reflected in the financial statements. This Standard does not specify the manner in which the GGS disclosures shall be made. Governments electing to make GGS disclosures in accordance with this Standard may make such disclosures by way of (a) note disclosure, (b) separate columns in the ~~primary~~ financial statements, or (c) otherwise, as considered appropriate in their jurisdiction. However, the manner of presentation of the GGS disclosures will be no more prominent than the consolidated financial statements prepared in accordance with IPSASs.

…

## Effective Date

…

47E. **Paragraph 37 was amended by [draft] *Improvements to IPSAS, 2018*, issued in [Month] [Year]. An entity shall apply this amendments for annual financial statements covering periods beginning on or after January 1, [Year]. Earlier application is permitted.**

…

## Basis for Conclusions

…

**Revision of IPSAS 22 as a result of [draft] *Improvements to IPSAS, 2018***

BC16. Paragraph 37 referred to the “primary financial statements.” Stakeholders have raised concerns that this term is not defined in IPSAS and could therefore cause confusion. The IPSASB noted that the term “financial statements” is used elsewhere in IPSAS with the same meaning. Consequently the IPSASB agreed to standardize the terminology and to replace the term “primary financial statements” with the term “financial statements” wherever this term occurred.

## Amendment: Part I-1c

## Amendments to IPSAS 24, *Presentation of Budget Information in Financial Statements*

Paragraphs 21, 22 and 24 are amended and paragraph 54D is added. New text is underlined and deleted text is struck through.

…

## Presentation of a Comparison of Budget and Actual Amounts

…

### Presentation and Disclosure

21. **An entity shall present a comparison of budget and actual amounts as additional budget columns in the ~~primary~~ financial statements only where the financial statements and the budget are prepared on a comparable basis.**

22. Comparisons of budget and actual amounts may be presented in a separate financial statement, (Statement of Comparison of Budget and Actual Amounts or a similarly titled statement) included in the complete set of financial statements as specified in IPSAS 1. Alternatively, where the financial statements and the budget are prepared on a comparable basis – that is, on the same basis of accounting for the same entity and reporting period, and adopt the same classification structure – additional columns may be added to the existing ~~primary~~ financial statements presented in accordance with IPSASs. These additional columns will identify original and final budget amounts and, if the entity so chooses, differences between the budget and actual amounts.

…

24. In those jurisdictions where budgets are prepared on the accrual basis and encompass the full set of financial statements, additional budget columns can be added to all the ~~primary~~ financial statements required by IPSASs. In some jurisdictions, budgets prepared on the accrual basis may be presented in the form of only certain of the ~~primary~~ financial statements that comprise the full set of financial statements as specified by IPSASs – for example, the budget may be presented as a statement of financial performance or a cash flow statement, with additional information provided in supporting schedules. In these cases, the additional budget columns can be included in the ~~primary~~ financial statements that are also adopted for presentation of the budget.

…

## Effective Date

…

54D. **Paragraphs 21, 22 and 24 were amended by [draft] *Improvements to IPSAS, 2018*, issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, [Year]. Earlier application is permitted.**

…

## Basis for Conclusions

…

**Revision of IPSAS 24 as a result of [draft] *Improvements to IPSAS, 2018***

BC24. Paragraphs 21, 22 and 24 referred to the "primary financial statements." Stakeholders have raised concerns that this term is not defined in IPSAS and could therefore cause confusion. The IPSASB noted that the term "financial statements" is used elsewhere in IPSAS with the same meaning. Consequently the IPSASB agreed to standardize the terminology and to replace the term "primary financial statements" with the term "financial statements" wherever this term occurred.

## Amendment: Part I-2

## Amendments to IPSAS 16, *Investment Property*

Paragraph 76 is deleted and paragraph 101F is added. New text is underlined and deleted text is struck through.

…

## Transfers

…

76. ~~**When an entity completes the construction or development of a self-constructed investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount shall be recognized in surplus or deficit.**~~ [Deleted]

…

## Effective Date

…

101F. **Paragraph 76 was deleted by [draft] *Improvements to IPSAS, 2018*, issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, [Year]. Earlier application is permitted.**

…

## Basis for Conclusions

…

**Revision of IPSAS 16 as a result of [draft] *Improvements to IPSAS, 2018***

…

BC9. Paragraph 76 included requirements regarding the measurement of self-constructed investment property that will be carried at fair value following its transfer from another class of asset once an entity completed its construction or development. As a result of the amendments made by *Improvements to IPSASs* issued in January 2010, investment property under construction is now within the scope of IPSAS 16, and hence the asset is not transferred from another class of asset on completion of the construction. Consequently, the IPSASB decided to delete paragraph 76 as it was obsolete.

## Amendment: Part I-3a

## Amendments to IPSAS 16, *Investment Property*

Paragraph 97 is amended and paragraph 101G is added. New text is underlined and deleted text is struck through.

…

## Transitional Provisions

…

### Fair Value Model

…

97. An entity that (a) has previously applied IPSAS 16 (2001), and (b) elects for the first time to classify and account for some or all eligible property interests held under operating~~[1]~~ leases as investment property, shall recognize the effect of that election as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which the election is first made. In addition,~~ if the entity has previously disclosed publicly (in financial statements or otherwise) the fair value of those property interests in earlier periods, paragraph 94(a) applies. If the entity has not previously disclosed publicly the information related to those property interests described in paragraph 94(a), paragraph 94(b) applies.~~

   (a) If the entity has previously disclosed publicly (in financial statements or otherwise) the fair value of its investment property in earlier periods (determined on a basis that satisfies the definition of fair value and the guidance in paragraphs 45–61), the entity is encouraged, but not required:

      (i) To adjust the opening balance of accumulated surpluses or deficits for the earliest period presented for which such fair value was disclosed publicly; and

      (ii) To restate comparative information for those periods; and

   (b) If the entity has not previously disclosed publicly the information described in (a), it shall not restate comparative information and shall disclose that fact.

…

## Effective Date

…

101G. **Paragraph 97 was amended by [draft] *Improvements to IPSAS, 2018*, issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, [Year]. Earlier application is permitted.**

…

[1] The deletion of the word 'operating' is proposed in ED 64, *Leases*. The deletion will only be made if and when an IPSAS on leases that includes an amendment to IPSAS 16 to delete the 'operating' is approved. Approval of the final pronouncement, *Improvements to IPSAS, 2018*, is expected to occur prior to an IPSAS on leases being approved.

## Basis for Conclusions

…

**Revision of IPSAS 16 as a result of [draft] *Improvements to IPSAS, 2018***

…

BC10. Paragraph 97 includes transitional provisions for those entities that elect, for the first time, to classify and account for some or all eligible property interests held under operating leases as investment property. These provisions have been restated following the deletion of other transitional provisions (to which paragraph 97 previously referred) as a result of the issuance of IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards*.

## Amendment: Part I-3b

## Amendments to IPSAS 17, *Property, Plant, and Equipment*

Paragraph 106 is amended and paragraph 107O is added. New text is underlined and deleted text is struck through.

## Transitional Provisions

…

106. Transitional provisions in IPSAS 17 (2001) provide entities with a period of up to five years to recognize all property, plant, and equipment and make the associated measurement and disclosure from the date of its first application. Entities that have previously applied IPSAS 17 (2001) may continue to take advantage of this five-year transitional period from the date of first application of IPSAS 17 (2001). These entities shall ~~also continue to make disclosures required by paragraph 104~~ disclose the fact that they are relying on these transitional provisions. Information on the major classes of asset that have not been recognized shall also be disclosed. When an entity takes advantage of the transitional provisions for a second or subsequent reporting period, details of the assets or classes of asset that were not recognized at the previous reporting date but that are now recognized shall be disclosed.

## Effective Date

…

107O. **Paragraph 106 was amended by [draft] *Improvements to IPSAS, 2018*, issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, [Year]. Earlier application is permitted.**

…

## Basis for Conclusions

…

**Revision of IPSAS 17 as a result of [draft] *Improvements to IPSAS, 2018***

BC15. Paragraph 106 includes transitional provisions for those entities that were already taking advantage of the five-year transitional period previously included in IPSAS 17. These provisions have been restated following the deletion of other transitional provisions (to which paragraph 106 previously referred) as a result of the issuance of IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards*.

## Amendment: Part I-4

## Amendments to IPSAS 31, *Intangible Assets*

Paragraph 109 is amended and paragraph 132J is added. New text is underlined and deleted text is struck through.

## Intangible Assets with Indefinite Useful Lives

…

**Review of Useful Life Assessment**

…

109. ~~For intangible assets measured under the cost model, reassessing the useful life of an intangible asset as finite rather than indefinite i~~In accordance with either IPSAS 21 or IPSAS 26, as appropriate, reassessing the useful life of an intangible asset as finite rather than indefinite is an indicator that the asset may be impaired. As a result, the entity tests the asset for impairment by comparing its recoverable service amount or its recoverable amount, determined in accordance with either IPSAS 21 or IPSAS 26, as appropriate, with its carrying amount, and recognizing any excess of the carrying amount over the recoverable service amount or recoverable amount as appropriate, as an impairment loss.

…

## Effective Date

…

132J. **Paragraph 109 was amended by [draft] *Improvements to IPSAS, 2018*, issued in [Month] [Year]. An entity shall apply this amendment prospectively for annual financial statements covering periods beginning on or after January 1, [Year]. Earlier application is permitted. If an entity applies this amendment for a period beginning before January 1, [Year], it shall disclose that fact and at the same time apply *Impairment of Revalued Assets* (Amendments to IPSAS 21, *Impairment of Non-Cash-Generating Assets*, and IPSAS 26, *Impairment of Cash-Generating Assets*).**

…

## Basis for Conclusions

…

**Revision of IPSAS 31 as a result of [draft] *Improvements to IPSAS, 2018***

BC13. Paragraph 109 requires an entity to test an intangible asset for impairment when reassessing its useful life. When this standard was issued, such a test was only required for intangible assets measured under the cost model. Following the publication of *Impairment of Revalued Assets* (Amendments to IPSAS 21, *Impairment of Non-Cash-Generating Assets*, and IPSAS 26, *Impairment of Cash-Generating Assets*) in July 2016, this test is required for all intangible assets, and paragraph 109 has been amended accordingly.

## Amendment: Part I-5

## Amendments to IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)*

Paragraphs 78, 79, 123 and 142 are amended and paragraph 154F is added. New text is underlined.

…

## Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSASs During the Period of Adoption

…

### IPSAS 1, Presentation of Financial Statements

*Comparative Information*

…

78. **Where a first-time adopter elects to present comparative information, the <u>first</u> transitional IPSAS financial statements or the first IPSAS financial statements presented in accordance with this IPSAS shall include:**

    (a) **One statement of financial position with comparative information for the preceding period, and an opening statement of financial position as at the beginning of the reporting period prior to the date of adoption of accrual basis IPSAS;**

    (b) **One statement of financial performance with comparative information for the preceding period;**

    (c) **One statement of changes in net assets/equity with comparative information for the preceding period;**

    (d) **One cash flow statement with comparative information for the preceding period;**

    (e) **A comparison of budget and actual amounts for the current year as a separate additional financial statement or as a budget column in the financial statements if the first-time adopter makes its approved budget publicly available; and**

    (f) **Related notes including comparative information, and the disclosure of narrative information about material adjustments as required by paragraph 142.**

79. **Where a first-time adopter elects to not present comparative information, its <u>first</u> transitional IPSAS financial statements following the adoption of accrual basis IPSASs or its first IPSAS financial statements presented in accordance with this IPSASs shall include:**

    (a) **One statement of financial position, and an opening statement of financial position at the date of adoption of accrual basis IPSAS;**

    (b) **One statement of financial performance;**

    (c) **One statement of changes in net assets/equity;**

    (d) **One cash flow statement;**

(e) **A comparison of budget and actual amounts for the current year as a separate additional financial statement or as a budget column in the financial statements if the first-time adopter makes its approved budget publicly available; and**

(f) **Related notes and the disclosure of narrative information about material adjustments as required by paragraph 142.**

…

**IPSAS 30, Financial Instruments: Disclosures**

123. **Where the first-time adopter elects to present comparative information in accordance with paragraph 78, it is not required to present information about the nature and extent of risks arising from financial instruments for the comparative period in its first transitional IPSAS financial statements or its first IPSAS financial statements.**

…

Reconciliations

142. **A first-time adopter shall present in the notes to its first transitional IPSAS financial statements or its first IPSAS financial statements:**

(a) **A reconciliation of its net assets/equity reported in accordance with its previous basis of accounting to its opening balance of net assets/equity at the date of adoption of IPSASs; and**

(b) **A reconciliation of its surplus or deficit in accordance with its previous basis of accounting to its opening balance of surplus or deficit at the date of adoption of IPSASs.**

**A first-time adopter that has applied a cash basis of accounting in its previous financial statements is not required to present such reconciliations.**

…

## Effective Date

…

154F. **Paragraphs 78, 79, 123 and 142 were amended by [draft] *Improvements to IPSAS, 2018*, issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, [Year]. Earlier application is permitted.**

…

## Basis for Conclusions

…

**Presentation of Information on First-Time Adoption**

*Presenting Comparative Information Following the Adoption of Accrual Basis IPSASs*

…

BC25. In considering the cost-benefit criterion, the IPSASB confirmed that the current approach in IPSAS 1 for the presentation of comparative information should be retained to promote the adoption of accrual IPSASs. This IPSAS therefore only encourages the provision of comparative information, with no requirement that a first-time adopter should provide comparative information in its first transitional IPSAS financial statements, or first IPSAS financial statements.

BC26. Where a first-time adopter elects to not present comparative information, the IPSASB agreed that, as a minimum, a first-time adopter's first transitional IPSAS financial statements, should include one statement of financial position and an opening statement of financial position at the date of adoption of accrual basis IPSASs.

…

**Revision of IPSAS 33 as a result of [draft] *Improvements to IPSAS, 2018***

BC119. Following the issue of IPSAS 33, the IPSASB became aware that stakeholders were uncertain whether the exemption from providing comparative information applied to the first financial statements issued following the adoption of accrual basis IPSAS, or all financial statements issued during the transition period. Paragraph 77 referred to an entity's 'first transitional IPSAS financial statements' whereas other paragraphs referred only to an entity's 'transitional IPSAS financial statements.' The IPSASB agreed to amend the other paragraphs to clarify that the exemption applies only to the first financial statements issued following the adoption of accrual basis IPSAS.

## Implementation Guidance

*This guidance accompanies, but is not part of, IPSAS 33.*

…

### Presenting Comparative Information

IG29. Paragraph 78 of IPSAS 33 encourages, but does not require an entity to present comparative information in its first transitional IPSAS financial statements or its first IPSAS financial statements in accordance with this IPSAS. The decision to present comparative information affects not only the extent of the information presented, but also the date of adoption of IPSASs.

## Amendment: Part I-6

## Amendments to IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)*

Paragraphs BC109 and IG91 are amended. New text is underlined and deleted text is struck through.

…

## Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, IPSAS 33.*

…

**Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSAS**

…

*IPSAS 39, Employee Benefits*

BC109. In developing IPSAS 33, ~~T~~the IPSASB also agreed that, where a first-time adopter ~~takes~~ took advantage of the exemptions that provide relief for the recognition and/or measurement of liabilities, it should provide information about amounts for the current and previous four annual periods of the present value of the defined benefit obligation, the fair value of the plan assets, and the surplus or deficit in the plan and adjustments as required by IPSAS ~~39~~ 25 prospectively. IPSAS 39, *Employee Benefits*, was issued in July 2016. IPSAS 39 deleted paragraph 107 of this Standard as the requirement in paragraph 141(p) of IPSAS 25 to disclose information on experience adjustments was not adopted in IPSAS 39.

…

## Implementation Guidance

*This guidance accompanies, but is not part of, IPSAS 33.*

…

**Presentation and Disclosure**

…

**Summary of Transitional Exemptions and Provisions Included in IPSAS 33 First-time Adoption of Accrual Basis IPSASs**

IG91. The diagram below summarizes the transitional exemptions and provisions included in other accrual basis IPSASs

…

| | Transitional exemption provided | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **NO** | **YES** | | | | | | |
| | | **Deemed cost** | **3 year transitional relief for recognition** | **3 year transitional relief for measurement** | **3 year transitional relief for recognition and/or measurement** | **3 year transitional relief for disclosure** | **Elimination of transactions, balances, revenue and expenses** | **Other** |
| IPSAS 25, *Employee Benefits* (IPSAS 39, *Employee Benefits*) | | | ✓ defined benefit plans and other long-term employee benefits not recognized under previous basis of accounting | ✓ for defined benefit and other long-term employee benefits recognized under previous basis of accounting | | | | • Provisions on how to determine initial liability • Provision to not separate cumulative actuarial gains and losses • Prospective disclosure on experience adjustments <u>(IPSAS 25 only; no disclosure of experience adjustments is required by IPSAS 39)</u> |

## Amendment: Part I-7

## Amendments to IPSAS 34, *Separate Financial Statements*

Paragraphs 14, 22 and 30 are amended and paragraph 32C is added. New text is underlined and deleted text is struck through.

…

### Preparation of Separate Financial Statements

…

14. **If a controlling entity is required, in accordance with paragraph 56 of IPSAS 35, to measure its investment in a controlled entity at fair value through surplus or deficit in accordance with IPSAS 29,[2] it shall also account for that investment in the same way in its separate financial statements. ~~If a~~<u>A</u> controlling entity that is not itself an investment entity ~~is required,~~<u>shall measure its investments in a controlled investment entity</u> in accordance with paragraph <u>12</u>~~58 of IPSAS 35, to measure the investments of a controlled investment entity at fair value through surplus or deficit in accordance with IPSAS 29 and consolidate the other assets and liabilities and revenue and expenses of the controlled investment entity, it shall also account for that investment in the controlled investment entity in the same way~~ in its separate financial statements.**

…

### Disclosure

…

22 **If a controlling entity that is not itself an investment entity is required<u> to apply the requirements of paragraph 58 of IPSAS 35,</u>~~ in accordance with paragraph 56 of IPSAS 35, to measure the investments of a controlled investment entity at fair value through surplus or deficit in accordance with IPSAS 29 and consolidate the other assets and liabilities and revenue and expenses of the controlled investment entity, it shall disclose that fact. The entity shall also~~ <u>it shall disclose its accounting policy choice for measuring its investment in the investment entity in its separate financial statements, and </u>present the disclosures relating to investment entities required by IPSAS 38~~, *Disclosure of Interests in Other Entities*~~.**

…

### Transitional Provisions

…

30. **At the date of initial application, a controlling entity that is not itself an investment entity but which is required, in accordance with paragraph ~~56~~ <u>58</u> of IPSAS 35, to measure ~~the~~ <u>its</u> investments~~ of~~<u> in</u> a controlled investment entity at fair value through surplus or deficit in accordance with IPSAS 29[2] ~~and consolidate the other assets and liabilities and revenue and expenses of the controlled investment entity~~, shall use the transitional provisions in**

[2] ED 62, *Financial Instruments*, is proposing replacing references to IPSAS 29 with references to [draft] IPSAS [X] (ED 62), *Financial Instruments*. These replacements will only be made if a new IPSAS based on ED 62 is approved. *Improvements to IPSAS, 2018* is expected to have an earlier effective date than a new IPSAS based on ED 62.

**paragraphs 24–29 in accounting for its investment in the controlled investment entity in its separate financial statements.**

…

## Effective Date

…

32C **Paragraphs 14, 22 and 30 were amended by [draft] *Improvements to IPSAS, 2018*, issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, [Year]. Earlier application is permitted. If an entity applies these amendments for a period beginning before January 1, [Year], it shall disclose that fact.**

…

## Basis for Conclusions

…

*Revision of IPSAS 34 as a result of [draft] Improvements to IPSAS, 2018*

BC9A Following the issue of IPSAS 34 the IPSASB became aware that the requirements in paragraphs 14 and 30 (which referred to the consolidation of certain balances of a controlled investment entity in separate financial statements) needed to be amended, as a controlling entity does not consolidate items in its separate financial statements. The IPSASB decided to permit a controlling entity that is not itself an investment entity to measure its investments in a controlled investment entity in accordance with paragraph 12 of IPSAS 34 in its separate financial statements. The IPSASB gave effect to this amendment in [draft] *Improvements to IPSAS, 2018*.

# PART II: IFRS CONVERGENCE AMENDMENTS

## Objective

4. The objective of Part II of the Exposure Draft is to propose Improvements to IPSAS in order to converge with amendments to International Financial Reporting Standards based on the IASB's *Improvements to IFRSs* projects, *Narrow Scope Amendments* projects, and Interpretations of the IFRS Interpretations Committee.

## Request for Comments

5. The IPSASB would welcome comments on all the changes proposed in the Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

## IPSAS Addressed

6. The Improvements project deals with non-substantive changes to IPSAS through a collection of amendments which are unrelated. Amendments included in Part II arise through consideration of the annual improvements and narrow scope amendments projects of the IASB, and Interpretations of the IFRS Interpretations Committee.

**The amendments proposed in part II are from the following IASB amendments:**

| IPSAS Standard | Summary of Proposed Change |
|---|---|
| *Annual Improvements to IFRSs 2011–2013 Cycle* (issued December 2013) | |
| IPSAS 16, *Investment Property* | Update the headings in relation to the interrelationship between IPSAS 40, *Public Sector Combinations*, and IPSAS 16 when classifying property as investment property or owner-occupied property (the substantive changes have already been made by IPSAS 40). |
| *Disclosure Initiative* (Amendments to IAS 7) (issued January 2016) | |
| IPSAS 2, *Cash Flow Statements* | Add disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. |
| *Transfers of Investment Property* (Amendments to IAS 40) (issued December 2016) | |
| IPSAS 16, *Investment Property* | Amend the requirements relating to transfers of investment property to reflect the principle that a change in use would involve (a) an assessment of whether a property meets, or has ceased to meet, the definition of investment property; and (b) supporting evidence that a change in use has occurred. The list of circumstances in which a transfer occurs is re-characterized as a non-exhaustive list of examples to be consistent with this principle. |

| | |
|---|---|
| *Annual Improvements to IFRSs 2014–2016 Cycle* (issued December 2016) | |
| IPSAS 36, *Investments in Associates and Joint Ventures* | Clarify that an entity is able to choose between applying the equity method or measuring the investment at fair value for each investment in an associate or joint venture. |
| IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration* (issued December 2016) | |
| IPSAS 4, *The Effects of Changes in Foreign Exchange Rates;*<br>IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* | Clarify how to account for a transaction when an entity recognizes a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or revenue. |
| *Annual Improvements to IFRS® Standards 2015–2017 Cycle* (issued December 2017) | |
| IPSAS 37, *Joint Arrangements* | Clarify the accounting for a previously held interest in a joint operation when a party obtains joint control. |
| IPSAS 40, *Public Sector Combinations.* | Clarify the accounting for a previously held interest in a joint operation when a party obtains control of the joint operation. |
| IPSAS 5, *Borrowing Costs* | Clarify that an entity includes borrowings made specifically to obtain a qualifying asset in general borrowings when that qualifying asset is ready for its intended use or sale. |
| *Plan Amendment, Curtailment or Settlement* (Amendments to IAS 19) (issued February 2018) | |
| IPSAS 39, *Employee Benefits* | Require an entity to use the updated assumptions from the remeasurement associated with a change to a plan (an amendment, curtailment or settlement) to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. |

## Amendment–Part II-1

## Amendments to IPSAS 16, *Investment Property*

The existing headings before paragraphs 8 and 9 are deleted, and a new heading added before paragraph 8. Paragraphs 8 and 9 have been included for ease of reference but are not amended. New text is underlined and deleted text is struck through.

…

### <u>Classification of property as investment property or owner-occupied property</u>

### ~~Property Interest Held by a Lessee under an Operating Lease~~

8. **A property interest that is held by a lessee under an operating lease may be classified and accounted for as investment property if, and only if, (a) the property would otherwise meet the definition of an investment property, and (b) the lessee uses the fair value model set out in paragraphs 42–64 for the asset recognized. This classification alternative is available on a property-by-property basis. However, once this classification alternative is selected for one such property interest held under an operating lease, all property classified as investment property shall be accounted for using the fair value model. When this classification alternative is selected, any interest so classified is included in the disclosures required by paragraphs 85–89.**

### ~~Investment Property~~

9. There are a number of circumstances in which public sector entities may hold property to earn rental and for capital appreciation. For example, a public sector entity may be established to manage a government's property portfolio on a commercial basis. In this case, the property held by the entity, other than property held for resale in the ordinary course of operations, meets the definition of an investment property. Other public sector entities may also hold property for rentals or capital appreciation, and use the cash generated to finance their other (service delivery) activities. For example, a university or local government may own a building for the purpose of leasing on a commercial basis to external parties to generate funds, rather than to produce or supply goods and services. This property would also meet the definition of investment property.

## Amendment–Part II-2

## Amendments to IPSAS 2, *Cash Flow Statements*

Paragraphs 55A–55E and the related heading are added. Paragraph 63G is also added. New text is underlined.

…

### Changes in liabilities arising from financing activities

55A. **An entity shall 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.**

55B. To the extent necessary to satisfy the requirement in paragraph 55A, an entity shall disclose the following changes in liabilities arising from financing activities:

(a) Changes from financing cash flows;

(b) Changes arising from obtaining or losing control of controlled entities or other operations;

(c) The effect of changes in foreign exchange rates;

(d) Changes in fair values; and

(e) Other changes.

55C. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the cash flow statement as cash flows from financing activities. In addition, the disclosure requirement in paragraph 55A also applies to changes in financial assets (for example, assets that hedge liabilities arising from financing activities) if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

55D. One way to fulfil the disclosure requirement in paragraph 55A is by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including the changes identified in paragraph 55B. Where an entity discloses such a reconciliation, it shall provide sufficient information to enable users of the financial statements to link items included in the reconciliation to the statement of financial position and the cash flow statement.

55E. If an entity provides the disclosure required by paragraph 55A in combination with disclosures of changes in other assets and liabilities, it shall disclose the changes in liabilities arising from financing activities separately from changes in those other assets and liabilities.

…

## Effective Date

…

63G. **Paragraphs 55A–55E were added by [draft] *Improvements to IPSAS, 2018*, issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, [Year]. Earlier application is permitted. When the entity first applies those amendments, it is not required to provide comparative information for preceding periods.**

…

## Basis for Conclusions

…

**Revision of IPSAS 2 as a result of [draft] *Improvements to IPSAS, 2018***

BC3. The IPSASB reviewed the revisions to IAS 7 included in the narrow scope amendments titled *Disclosure Initiative* (Amendments to IAS 7) issued by the IASB in January 2016, and the IASB's rationale for making these amendments as set out in its Basis for Conclusions, and generally concurred that there was no public sector specific reason for not adopting the amendments.

…

## Illustrative Examples

*These examples accompany, but are not part of, IPSAS 2.*

…

**Cash Flow Statement (For an Entity Other Than a Financial Institution)**

**Direct Method Cash Flow Statement (paragraph 27(a))**

…

**Notes to the Cash Flow Statement**

…

*(d) Reconciliation of liabilities arising from financing activities*

| | 20X1 | Cash flows | Non-cash changes | | 20X2 |
|---|---|---|---|---|---|
| | | | Acquisition | New leases | |
| Long-term borrowings | X | X | X | X | X |
| Lease liabilities | X | X | X | X | X |
| Long-term debt | X | X | X | X | X |

…

**Indirect Method Cash Flow Statement (paragraph 27(b))**

**Public Sector Entity—Consolidated Cash Flow Statement for Year Ended December 31, 20X2 (In Thousands of Currency Units)**

…

**Notes to the Cash Flow Statement**

…

*(c) Reconciliation of liabilities arising from financing activities*

| | 20X1 | Cash flows | Non-cash changes | | 20X2 |
|---|---|---|---|---|---|
| | | | Acquisition | New leases | |
| Long-term borrowings | X | X | X | X | X |
| Lease liabilities | X | X | X | X | X |
| Long-term debt | X | X | X | X | X |

**Reconciliation of liabilities arising from financing activities**

1 This example illustrates one possible way of providing the disclosures required by paragraphs 55A–55E.

2 The example shows only current period amounts. Corresponding amounts for the preceding period are required to be presented in accordance with IPSAS 1 *Presentation of Financial Statements*.

| | 20X1 | Cash flows | Non-cash changes | | | 20X2 |
|---|---|---|---|---|---|---|
| | | | Acquisition | Foreign exchange movement | Fair value changes | |
| Long-term borrowings | 22,000 | (1,000) | – | – | – | 21,000 |
| Short-term borrowings | 10,000 | (500) | – | 200 | – | 9,700 |
| Lease liabilities | 4,000 | (800) | 300 | – | – | 3,500 |
| Assets held to hedge long-term borrowings | (675) | 150 | – | – | (25) | (550) |
| Total liabilities from financing activities | 35,325 | (2,150) | 300 | 200 | (25) | 33,650 |

## Amendment–Part II-3

## Amendments to IPSAS 16, *Investment Property*

Paragraphs 66 and 68 are amended and paragraphs 100B–100D and 101G are added. New text is underlined and deleted text is struck through.

…

## Transfers

66. **~~Transfers~~An entity shall transfer a property to or from investment property ~~shall be made~~ when, and only when, there is a change in use~~, evidenced by~~. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. Examples of evidence of a change in use include:**

    (a) **Commencement of owner-occupation, or of development with a view to owner-occupation, for a transfer from investment property to owner-occupied property;**

    (b) **Commencement of development with a view to sale, for a transfer from investment property to inventories;**

    (c) **End of owner-occupation, for a transfer from owner-occupied property to investment property; ~~or~~and**

    (d) **~~Commencement~~ Inception of an operating[3] lease (on a commercial basis) to another party, for a transfer from inventories to investment property.**

    (e) [Deleted]

…

68. ~~Paragraph 66(b) requires an entity to transfer a property from investment property to inventories when, and only when, there is a change in use, evidenced by commencement of development with a view to sale.~~ When an entity decides to dispose of an investment property without development, it continues to treat the property as an investment property until it is derecognized (eliminated from the statement of financial position) and does not ~~treat~~reclassify it as inventory. Similarly, if an entity begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property and is not reclassified as owner-occupied property during the redevelopment.

…

## Transitional Provisions

…

[3] The deletion of the word 'operating' is proposed in ED 64, *Leases*. The deletion will only be made if and when an IPSAS on leases that includes an amendment to IPSAS 16 to delete the 'operating' is approved. Approval of the final pronouncement, *Improvements to IPSAS, 2018*, is expected to occur prior to an IPSAS on leases being approved.

**Transfers of investment property**

100B. [Draft] *Improvements to IPSAS, 2018*, issued in [Month] [Year], amended paragraphs 66 and 68. An entity shall apply those amendments to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments (the date of initial application). At the date of initial application, an entity shall reassess the classification of property held at that date and, if applicable, reclassify property applying paragraphs 9–18 to reflect the conditions that exist at that date.

100C. Notwithstanding the requirements in paragraph 100B, an entity is permitted to apply the amendments to paragraphs 66 and 68 retrospectively in accordance with IPSAS 3 if, and only if, that is possible without the use of hindsight.

100D. If, in accordance with paragraph 100B, an entity reclassifies property at the date of initial application, the entity shall:

(a) Account for the reclassification applying the requirements in paragraphs 70–75. In applying paragraphs 70–75, an entity shall:

(i) Read any reference to the date of change in use as the date of initial application; and

(ii) Recognize any amount that, in accordance with paragraphs 70–75, would have been recognized in surplus or deficit as an adjustment to the opening balance of accumulated surplus or deficit at the date of initial application.

(b) Disclose the amounts reclassified to, or from, investment property in accordance with paragraph 100B. The entity shall disclose those amounts reclassified as part of the reconciliation of the carrying amount of investment property at the beginning and end of the period as required by paragraphs 87 and 90.

…

## Effective Date

…

101G. **Paragraphs 66 and 68 were amended, and paragraphs 100B–100D added, by [draft] *Improvements to IPSAS, 2018*, issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, [Year]. Earlier application is permitted. If an entity applies this amendment for a period beginning before January 1, [Year], it shall disclose that fact.**

…

## Basis for Conclusions

…

**Revision of IPSAS 16 as a result of [draft] *Improvements to IPSAS, 2018***

BC9. The IPSASB reviewed the revisions to IAS 40 included in the narrow scope amendments titled *Transfers of Investment Property* (Amendments to IAS 40) issued by the IASB in December 2016, and the IASB's rationale for making these amendments as set out in its Basis for Conclusions, and generally concurred that there was no public sector specific reason for not adopting the amendments.

## Amendment–Part II-4

## Amendments to IPSAS 36, *Investments in Associates and Joint Ventures*

Paragraph 24 is amended and paragraph 51E is added. New text is underlined and deleted text is struck through.

…

## Application of the Equity Method

…

#### Exemptions from Applying the Equity Method

…

24. When an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that investment~~s in those associates and joint ventures~~ at fair value through surplus or deficit in accordance with IPSAS 29[4]. An entity shall make this election separately for each associate or joint venture, at initial recognition of the associate or joint venture. An investment entity will, by definition, have made this election for its investments.

…

## Effective Date

…

**51E. Paragraph 24 was amended by [draft] *Improvements to IPSAS, 2018*, issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, [Year]. Earlier application is permitted. If an entity applies this amendment for a period beginning before January 1, [Year], it shall disclose that fact.**

…

## Basis for Conclusions

…

#### Revision of IPSAS 36 as a result of [draft] *Improvements to IPSAS, 2018*

BC17. The IPSASB reviewed the revisions to IAS 28, *Investments in Associates and Joint Ventures*, included in *Annual Improvements to IFRS Standards 2014–2016 Cycle* issued by the IASB in December 2016, and the IASB's rationale for making these amendments as set out in its Basis for Conclusions. These amendments clarify that an entity is able to choose between applying the equity method or measuring the investment at fair value for each investment in an associate or joint venture.

4 ED 62, *Financial Instruments*, is proposing replacing references to IPSAS 29 with references to [draft] IPSAS [X] (ED 62), *Financial Instruments*. These replacements will only be made if a new IPSAS based on ED 62 is approved. *Improvements to IPSAS, 2018* is expected to have an earlier effective date than a new IPSAS based on ED 62.

BC18. In respect of an investment in an associate or a joint venture that is held by, or is held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the IPSASB generally concurred that there was no public sector specific reason for not adopting the amendments.

BC19. However, in respect of an interest in an associate or a joint venture that is an investment entity, the IPSASB had already determined, in approving IPSAS 36 (and in contrast to the approach taken in IAS 28), to mandate fair value measurement. Consequently, the IPSASB did not adopt the amendments made to IAS 28, paragraph 36A.

## Amendment–Part II-5a

## Amendments to IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*

Paragraphs 70A, 70B and 71F, and Appendix A (paragraphs A1–A9) are added. New text is underlined.

…

## Transitional Provisions

…

**Foreign Currency Transactions and Advance Consideration (Amendments made by *Improvements to IPSAS, 2018*)**

70A. On initial application, an entity shall apply the requirements of Appendix A either:

(a) Retrospectively applying IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*; or

(b) Prospectively to all assets, expenses and revenue in the scope of Appendix A initially recognized on or after:

(i) The beginning of the reporting period in which the entity first applies Appendix A; or

(ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies Appendix A.

70B. An entity that applies paragraph 70A(b) shall, on initial application, apply Appendix A to assets, expenses and revenue initially recognized on or after the beginning of the reporting period in paragraph 70A(b)(i) or (ii) for which the entity has recognized non-monetary assets or non-monetary liabilities arising from advance consideration before that date.

## Effective Date

…

71F. **Paragraphs 70A and 70B, and Appendix A (paragraphs A1–A9) were added by [draft] *Improvements to IPSAS, 2018*, issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, [Year]. Earlier application is permitted. If an entity applies these amendments for a period beginning before January 1, [Year], it shall disclose that fact.**

…

## Appendix A

## Foreign Currency Transactions and Advance Consideration

*This Appendix is an integral part of IPSAS 4*

**Introduction**

A1. Paragraph 24 of IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*, requires an entity to record a foreign currency transaction, on initial recognition in its functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency (the exchange rate) at the date of the transaction. Paragraph 25 of IPSAS 4 states that the date of the transaction is the date on which the transaction first qualifies for recognition in accordance with IPSAS.

A2. When an entity pays or receives consideration in advance in a foreign currency, it generally recognizes a non-monetary asset or non-monetary liability before the recognition of the related asset, expense or revenue. The related asset, expense or revenue (or part of it) is the amount recognized applying relevant Standards, which results in the derecognition of the non-monetary asset or non-monetary liability arising from the advance consideration.

A3. This Appendix clarifies the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or revenue when an entity has received or paid advance consideration in a foreign currency.

## Scope

A4. This Appendix applies to a foreign currency transaction (or part of it) when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or revenue (or part of it).

A5. This Appendix does not apply when an entity measures the related asset, expense or revenue on initial recognition:

(a) At fair value; or

(b) At the fair value of the consideration paid or received at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability arising from advance consideration (for example, the measurement of goodwill applying IPSAS 40, *Public Sector Combinations*).

A6. An entity is not required to apply this Appendix to:

(a) Income taxes; or

(b) Insurance contracts (including reinsurance contracts) that it issues or reinsurance contracts that it holds.

## Application of IPSAS 4 to Foreign Currency Transactions and Advance Consideration

A7. This Appendix addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or revenue (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency.

A8. Applying paragraphs 24–25 of IPSAS 4, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or revenue (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

A9. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration.

## Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, IPSAS 4.*

…

**Revision of IPSAS 4 as a result of [draft] *Improvements to IPSAS, 2018***

BC7. The IPSASB reviewed the requirements of IFRIC 22, *Foreign Currency Transactions and Advance Consideration*, issued in December 2016, and the considerations of the IFRS Interpretations Committee in reaching its consensus as set out in its Basis for Conclusions. The IPSASB generally concurred that there was no public sector specific reason for not incorporating these requirements into IPSAS 4.

## Illustrative Examples

*These Illustrative Examples accompany, but are not part of, IPSAS 4*

**Foreign Currency Transactions and Advance Consideration**

*In these Illustrative Examples, foreign currency amounts are 'Foreign Currency' (FC) and functional currency amounts are 'Local Currency' (LC).*

IE1. The objective of these examples is to illustrate how an entity determines the date of the transaction when it recognizes a non-monetary asset or non-monetary liability arising from advance consideration in a foreign currency before it recognizes the related asset, expense or revenue (or part of it) applying relevant IPSAS Standards.

*Example 1—A single advance payment for the purchase of a single item of property, plant and equipment*

IE2. On March 1, 20X1, Entity A entered into a contract with a supplier to purchase a machine for use in its operations. Under the terms of the contract, Entity A pays the supplier a fixed purchase price of FC1,000 on April 1, 20X1. On April 15, 20X1, Entity A takes delivery of the machine.

IE3. Entity A initially recognizes a non-monetary asset translating FC1,000 into its functional currency at the spot exchange rate between the functional currency and the foreign currency on April 1, 20X1. Applying paragraph 27(b) of IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*, Entity A does not update the translated amount of that non-monetary asset.

IE4. On April 15, 20X1, Entity A takes delivery of the machine. Entity A derecognizes the non-monetary asset and recognizes the machine as property, plant and equipment applying IPSAS 17, *Property, Plant and Equipment*. On initial recognition of the machine, Entity A recognizes the cost of the machine using the exchange rate at the date of the transaction, which is April 1 20X1 (the date of initial recognition of the non-monetary asset).

*Example 2—Multiple receipts for revenue recognized at a single point in time*

IE5. On June 1, 20X2, Entity B entered into a contract with a customer to deliver goods on September 1, 20X2. The total fixed contract price is an amount of FC100, of which FC40 is due and received on August 1, 20X2 and the balance is receivable on September 30, 20X2.

IE6. Entity B initially recognizes a non-monetary contract liability translating FC40 into its functional currency at the spot exchange rate between the functional currency and the foreign currency on

August 1, 20X2. Applying paragraph 27(b) of IPSAS 4, Entity B does not update the translated amount of that non-monetary liability.

IE7. Applying paragraph 28 of IPSAS 9, *Revenue from Exchange Transactions*, Entity B recognizes revenue on September 1, 20X2, the date on which it transfers the goods to the customer.

IE8. Entity B determines that the date of the transaction for the revenue relating to the advance consideration of FC40 is August 1, 20X2. Applying paragraph 25 of IPSAS 4, Entity B determines that the date of the transaction for the remainder of the revenue is September 1, 20X2.

IE9. On September 1, 20X2, Entity B:

(a) Derecognizes the contract liability of FC40 and recognizes revenue using the exchange rate on August 1, 20X2; and

(b) Recognizes revenue of FC60 and a corresponding receivable using the exchange rate on that date (September 1 20X2).

IE10. The receivable of FC60 recognized on September 1, 20X2 is a monetary item. Entity B updates the translated amount of the receivable until the receivable is settled.

*Example 3—Multiple payments for purchases of services over a period of time*

IE11. On May 1 20X3, Entity C entered into a contract with a supplier for services. The supplier will provide the services to Entity C evenly over the period from July 1, 20X3 to December 31 20X3. The contract requires Entity C to pay the supplier FC200 on June 15, 20X3 and FC400 on December 31, 20X3. Entity C has determined that, for this contract, the payment of FC200 on June 15 20X3 relates to the services to be received in the period July 1–August 31, 20X3, and the payment of FC400 on December 31, 20X3 relates to the services to be received in the period September 1–December 31, 20X3.

IE12. Entity C initially recognizes a non-monetary asset translating FC200 into its functional currency at the spot exchange rate between the functional currency and the foreign currency on June 15, 20X3.

IE13. In the period July 1–August 31, 20X3, Entity C derecognizes the non-monetary asset and recognizes an expense of FC200 in profit or loss as it receives the services from the supplier. Entity C determines that the date of the transaction for the expense related to the advance consideration of FC200 is June 15, 20X3 (the date of initial recognition of the non-monetary asset).

IE14. In the period September 1–December 31, 20X3, Entity C initially recognizes the expense in surplus or deficit as it receives the services from the supplier. In principle, the dates of the transaction are each day in the period September 1–December 31, 20X3. However, if exchange rates do not fluctuate significantly, Entity C may use a rate that approximates the actual rates as permitted by paragraph 25 of IPSAS 4. If that is the case, Entity C may, for example, translate each month's expense of FC100 (FC400 ÷ 4) into its functional currency using the average exchange rate for each month for the period September 1–December 31, 20X3.

IE15. As Entity C recognizes the expense in the period September 1–December 31, 20X3, it recognizes a corresponding liability in respect of its obligation to pay the supplier. The liability is a monetary item. Entity C updates the translated amount of the liability until the liability is settled.

*Example 4—Multiple receipts for revenue recognized at multiple points in time*

IE16. On January 1, 20X4, Entity D enters into a contract to sell two products to a customer. Entity D transfers one product on March 1, 20X4 and the second on June 1 20X4. As required by the contract, the customer pays a fixed purchase price of FC1,000, of which FC200 is due and received in advance on January 31, 20X4 and the balance is due and received on June 1, 20X4.

IE17. The following facts are relevant:

(a) The price of the first product is FC450 and the price of the second product is FC550.

(b) Entity D has determined that, for this contract, the consideration of FC200 received on January 31, 20X4 relates to the first product transferred on March 1, 20X4. On transfer of that product to the customer, Entity D has an unconditional right to FC250 of the remaining consideration.

IE18. The spot exchange rates are:

| **Date** | **Spot exchange rate FC:LC** |
|---|---|
| 31 January 20X4 | 1:1.5 |
| 1 March 20X4 | 1:1.7 |
| 1 June 20X4 | 1:1.9 |

IE19. The following journal entries illustrate how Entity D accounts for the foreign currency aspects of the contract:

(a) Entity D receives the advance payment of FC200 on January 31, 20X4, which it translates into its functional currency using the exchange rate at January 31, 20X4.

| | | |
|---|---|---|
| Dr Cash (FC200) | LC300 | |
| Cr Contract liability (FC200) | | LC300 |

(b) Applying paragraph 27(b) of IPSAS 4, Entity D does not update the translated amount of the non-monetary contract liability.

(c) Entity D transfers the first product with a price of FC450 on March 1, 20X4. Entity D derecognizes the contract liability and recognizes revenue of LC300. Entity D recognizes the remaining revenue of FC250 relating to the first product and a corresponding receivable, both of which it translates at the exchange rate at the date that it initially recognizes the remaining revenue of FC250, i.e., March 1, 20X4.

| | | |
|---|---|---|
| Dr Contract liability (FC200) | LC300 | |
| Dr Receivable (FC250) | LC425 | |
| Cr Revenue (FC450) | | LC725 |

(d) The receivable of FC250 is a monetary item. Entity D updates the translated amount of the receivable until the receivable is settled (June 1, 20X4). At June 1, 20X4, the receivable of

FC250 is equivalent to LC475. As required by paragraph 32 of IPSAS 4, Entity D recognizes an exchange gain of LC50 in surplus or deficit.

| | | |
|---|---|---|
| Dr Receivable | LC50 | |
| Cr Foreign exchange gain | | LC50 |

(e) Entity D transfers the second product with a price of FC550 on June 1, 20X4. Entity D recognizes revenue of FC550 using the exchange rate at the date of the transaction, which is the date that Entity D first recognizes this part of the transaction in its financial statements, i.e., June 1, 20X4.

(f) Entity D also receives the remaining consideration of FC800 on June 1, 20X4. FC250 of the consideration received settles the receivable of FC250 arising on the transfer of the first product. Entity D translates the cash at the exchange rate at June 1, 20X4.

| | | |
|---|---|---|
| Dr Cash (FC800) | LC1,520 | |
| Cr Receivable (FC250) | | LC475 |
| Cr Revenue (FC550) | | LC1,045 |

## Amendment: Part II-5b

## Amendments to IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)*

Paragraphs 85A and 154G are added. New text is underlined.

…

## Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSASs During the Period of Adoption

…

IPSAS 4, The Effects of Changes in Foreign Exchange Rates

…

85A. **A first-time adopter need not apply Appendix A of IPSAS 4 to assets, expenses and revenue in the scope of Appendix A initially recognized before the date of adoption of IPSASs.**

…

154G. **Paragraph 85A was added by [draft] *Improvements to IPSAS, 2018*, issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, [Year]. Earlier application is permitted. If an entity applies this amendment for a period beginning before January 1, [Year] it shall disclose that fact and apply the amendments to IPSAS 4 included in [draft] *Improvements to IPSAS, 2018* at the same time.**

…

## Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, IPSAS 33.*

…

**Revision of IPSAS 33 as a result of [draft] *Improvements to IPSAS, 2018***

…

BC120. The IPSASB reviewed the requirements of IFRIC 22, *Foreign Currency Transactions and Advance Consideration*, issued in December 2016, and the IASB's rationale for making these amendments as set out in its Basis for Conclusions. The IPSASB generally concurred that there was no public sector specific reason for not incorporating these requirements into IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*. Consequently, the IPSASB agreed to incorporate the requirements of IFRIC 22 into Appendix A of IPSAS 4. The IPSASB noted that entities are permitted to apply the requirements of Appendix A prospectively, and therefore agreed that first-time adopters need not apply the requirements to assets, expenses and revenue in the scope of Appendix A initially recognized before the date of adoption of IPSASs.

…

## Implementation Guidance

…

**Summary of Transitional Exemptions and Provisions Included in IPSAS 33 First-time Adoption of Accrual Basis IPSASs**

IG91. The diagram below summarizes the transitional exemptions and provisions included in other accrual basis IPSASs

| **IPSAS** | **Transitional exemption provided** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **NO** | **YES** | | | | | | |
| | | **Deemed cost** | **3 year transitional relief for recognition** | **3 year transitional relief for measurement** | **3 year transitional relief for recognition and/or measurement** | **3 year transitional relief for disclosure** | **Elimination of transactions, balances, revenue and expenses** | **Other** |
| …<br>IPSAS 4, *The Effects of Changes in Foreign Exchange Rates* | | | | | | | | Exemption to comply with requirements for cumulative translation<br><u>Not required to apply Appendix A to items initially recognized before the date of adoption of IPSASs</u> |

…

## Appendix

### Differentiation between transitional exemptions and provisions that a first-time adopter is required to apply and/or can elect to apply on adoption of accrual basis IPSASs

This Appendix summarises how the transitional exemptions and provisions that a first-time adopter is required to apply in terms of this IPSAS, and those that a first-time adopter may elect to apply on adoption of accrual basis IPSASs.

As the transitional exemptions and provisions that may be elected can also affect the fair presentation and the first-time adopter's ability to assert compliance with accrual basis IPSASs as explained in paragraphs 27 to 32 of IPSAS 33, the Appendix makes a distinction between those transitional exemptions and provisions that affect fair presentation and the ability to assert compliance with accrual basis IPSASs, and those that do not.

| **Transitional exemption or provision** | **Transitional exemptions or provisions that have to be applied** | **Transitional exemptions or provisions that may be applied or elected** | |
|---|---|---|---|
| | Do not affect fair presentation and compliance with accrual basis IPSAS | Do not affect fair presentation and compliance with accrual basis IPSAS | Affect fair presentation and compliance with accrual basis IPSAS |
| …<br>IPSAS 4<br>• Cumulative transitional differences at the date of adoption<br>• Not required to apply Appendix A to items initially recognized before the date of adoption of IPSASs | | √<br><br>√ | |

## Amendment–Part II-6

## Amendments to IPSAS 37, *Joint Arrangements*

Paragraphs 42E and AG33CA are added. New text is underlined.

…

## Effective Date

…

42E. **Paragraph AG33CA was amended by [draft] *Improvements to IPSAS, 2018*, issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, [Year]. Earlier application is permitted. If an entity applies this amendment for a period beginning before January 1, [Year], it shall disclose that fact.**

…

## Application Guidance

*This Appendix is an integral part of IPSAS 37.*

…

## Financial Statements of Parties to a Joint Arrangement (paragraphs 23–28)

### Accounting for acquisitions of interests in joint operations

…

AG33CA. A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes an operation as defined in IPSAS 40. In such cases, previously held interests in the joint operation are not remeasured.

…

## Basis for Conclusions

…

### Revision of IPSAS 37 as a result of [draft] *Improvements to IPSAS, 2018*

BC10. The IPSASB reviewed the revisions to IFRS 11, *Joint Arrangements*, included in *Annual Improvements to IFRS® Standards 2015–2017 Cycle* issued by the IASB in December 2017, and the IASB's rationale for making these amendments as set out in its Basis for Conclusions, and generally concurred that there was no public sector specific reason for not adopting the amendments.

## Amendment–Part II-7

## Amendments to IPSAS 40, *Public Sector Combinations*

Paragraphs 100A and 126C are added. New text is underlined.

…

## The Acquisition Method of Accounting

…

### An Acquisition Achieved in Stages

…

100A. When a party to a joint arrangement (as defined in IPSAS 37, *Joint Arrangements*) obtains control of an operation that is a joint operation (as defined in IPSAS 37), and had rights to the assets and obligations for the liabilities relating to that joint operation immediately before the acquisition date, the transaction is an acquisition achieved in stages. The acquirer shall therefore apply the requirements for an acquisition achieved in stages, including remeasuring its previously held interest in the joint operation in the manner described in paragraph 100. In doing so, the acquirer shall remeasure its entire previously held interest in the joint operation.

…

## Effective Date

…

126C. **Paragraph 100A was amended by [draft] *Improvements to IPSAS, 2018*, issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, [Year]. Earlier application is permitted. If an entity applies this amendment for a period beginning before January 1, [Year], it shall disclose that fact.**

…

## Basis for Conclusions

…

**Revision of IPSAS 40 as a result of [draft] *Improvements to IPSAS, 2018***

BC94. The IPSASB reviewed the revisions to IFRS 3, *Business Combinations*, included in *Annual Improvements to IFRS® Standards 2015–2017 Cycle* issued by the IASB in December 2017, and the IASB's rationale for making these amendments as set out in its Basis for Conclusions. The IPSASB concurred that, as the accounting for an acquisition achieved in stages was the same in IPSAS 40 as in IFRS 3, there was no public sector specific reason for not adopting the amendments.

## Amendment–Part II-8

## Amendments to IPSAS 5, *Borrowing Costs*

Paragraph 25 is amended and paragraphs 41A and 42E are added. New text is underlined and deleted text is struck through.

…

## Borrowing Costs—Allowed Alternative Treatment

…

### Borrowing Costs Eligible for Capitalization

…

25. **To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization shall be determined by applying a capitalization rate to the outlays on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to ~~the~~ all borrowings of the entity that are outstanding during the period.~~, other than borrowings~~ However, an entity shall exclude from this calculation borrowing costs applicable to borrowings made specifically for the purpose of obtaining a qualifying asset until substantially all the activities necessary to prepare that asset for its intended use or sale are complete. The amount of borrowing costs capitalized during a period shall not exceed the amount of borrowing costs incurred during that period.**

…

## Transitional Provisions

…

41A. *Improvements to IPSAS, 2018*, issued in [Month] [Year], amended paragraph 25. An entity shall apply those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments.

,,,

## Effective Date

…

42E **Paragraph 25 was amended and paragraph 41A added by [draft] *Improvements to IPSAS, 2018*, issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, [Year]. Earlier application is permitted. If an entity applies these amendments for a period beginning before January 1, [Year], it shall disclose that fact.**

…

## Basis for Conclusions

…

**Revision of IPSAS 5 as a result of [draft] *Improvements to IPSAS, 2018***

BC2. The IPSASB reviewed the revisions to IAS 23, *Borrowing Costs*, included in *Annual Improvements to IFRS® Standards 2015–2017 Cycle* issued by the IASB in December 2017, and the IASB's rationale for making these amendments as set out in its Basis for Conclusions. The IPSASB noted that, although IPSAS 5 and IAS 23 have diverged, the accounting for the allowed alternative treatment in IPSAS 5 is consistent with the accounting in IAS 23. The IPSASB agreed, therefore, that there was no public sector specific reason for not adopting the amendments. The IPSASB concurred with the IASB's view that the costs of applying the amendments retrospectively might exceed the potential benefits of doing so. Consequently, an entity applies the amendments only to borrowing costs incurred on or after the date it first applies the amendments.

## Amendment–Part II-9

## Amendments to IPSAS 39, *Employee Benefits*

Paragraphs 59, 101, 122, 125, 127, 128, and 159 are amended and paragraphs 103A, 124A, 125A and 176A, and a new heading before paragraph 124A, are added. New text is underlined and deleted text is struck through.

…

## Post-Employment Benefits—Defined Benefit Plans

…

### Recognition and Measurement

…

59. Accounting by an entity for defined benefit plans involves the following steps:

…

(c) Determining amounts to be recognized in surplus or deficit:

(i) Current service cost (see paragraphs 72–76 and paragraph 124A).

…

### Past Service Cost and Gains and Losses on Settlement

101. **~~Before~~ When determining past service cost, or a gain or loss on settlement, an entity shall remeasure the net defined benefit liability (asset) using the current fair value of plan assets and current actuarial assumptions (including current market interest rates and other current market prices), reflecting:**

(a) **~~t~~The benefits offered under the plan and the plan assets before the plan amendment, curtailment or settlement; and**

(b) **The benefits offered under the plan and the plan assets after the plan amendment, curtailment or settlement.**

…

103A. When a plan amendment, curtailment or settlement occurs, an entity shall recognize and measure any past service cost, or a gain or loss on settlement, in accordance with paragraphs 101–103 and paragraphs 104–114. In doing so, an entity shall not consider the effect of the asset ceiling. An entity shall then determine the effect of the asset ceiling after the plan amendment, curtailment or settlement and shall recognize any change in that effect in accordance with paragraph 59(d).

…

### Components of Defined Benefit Cost

122. **An entity shall recognize the components of defined benefit cost, except to the extent that another IPSAS requires or permits their inclusion in the cost of an asset, as follows:**

(a) **Service cost (see paragraphs 68–114 and paragraph 124A) in surplus or deficit;**

…

*Current Service Cost*

124A. **An entity shall determine current service cost using actuarial assumptions determined at the start of the annual reporting period. However, if an entity remeasures the net defined benefit liability (asset) in accordance with paragraph 101, it shall determine current service cost for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using the actuarial assumptions used to remeasure the net defined benefit liability (asset) in accordance with paragraph 101(b).**

*Net Interest on the Net Defined Benefit Liability (Asset)*

125. **An entity shall determine ~~N~~net interest on the net defined benefit liability (asset) ~~shall be determined~~ by multiplying the net defined benefit liability (asset) by the discount rate specified in paragraph 85~~, both as determined at the start of the reporting period, taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments~~.**

125A. **To determine net interest in accordance with paragraph 125, an entity shall use the net defined benefit liability (asset) and the discount rate determined at the start of the annual reporting period. However, if an entity remeasures the net defined benefit liability (asset) in accordance with paragraph 101, the entity shall determine net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using:**

(a) **The net defined benefit liability (asset) determined in accordance with paragraph 101(b); and**

(b) **The discount rate used to remeasure the net defined benefit liability (asset) in accordance with paragraph 101(b).**

**In applying paragraph 125A, the entity shall also take into account any changes in the net defined benefit liability (asset) during the period resulting from contributions or benefit payments.**

…

127. Interest revenue on plan assets is a component of the return on plan assets, and is determined by multiplying the fair value of the plan assets by the discount rate specified in paragraph 125A. ~~85, both as determined~~ An entity shall determine the fair value of the plan assets at the start of the reporting period~~, taking account of any changes in the plan assets held during the period as a result of contributions and benefit payments~~. However, if an entity remeasures the net defined benefit liability (asset) in accordance with paragraph 101, the entity shall determine interest revenue for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using the plan assets used to remeasure the net defined benefit liability (asset) in accordance with paragraph 101(b). In applying paragraph 127, the entity shall also take into account any changes in the plan assets held during the period resulting from contributions or benefit payments. The difference between the interest revenue on plan assets and the return on plan assets is included in the remeasurement of the net defined benefit liability (asset).

128. Interest on the effect of the asset ceiling is part of the total change in the effect of the asset ceiling, and is determined by multiplying the effect of the asset ceiling by the discount rate specified in

paragraph 125A ~~85, both as determined at the start of the reporting period~~. An entity shall determine the effect of the asset ceiling at the start of the annual reporting period. However, if an entity remeasures the net defined benefit liability (asset) in accordance with paragraph 101, the entity shall determine interest on the effect of the asset ceiling for the remainder of the annual reporting period after the plan amendment, curtailment or settlement taking into account any change in the effect of the asset ceiling determined in accordance with paragraph 103A. The difference between ~~that amount~~ interest on the effect of the asset ceiling and the total change in the effect of the asset ceiling is included in the remeasurement of the net defined benefit liability (asset).

…

## Other Long-Term Employee Benefits

…

### Recognition and Measurement

…

159. **For other long-term employee benefits, an entity shall recognize the net total of the following amounts in surplus or deficit, except to the extent that another IPSAS requires or permits their inclusion in the cost of an asset:**

(a) **Service cost (see paragraphs 68–114 and paragraph 124A);**

…

## Effective Date

…

176A. **Paragraphs 59, 101, 122, 125, 127, 128 and 159 were amended, and paragraphs 103A, 124A and 125A added by [draft] *Improvements to IPSAS, 2018*, issued in [Month] [Year]. An entity shall apply these amendments to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, [Year]. Earlier application is permitted. If an entity applies these amendments earlier, it shall disclose that fact.**

…

## Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, IPSAS 39.*

…

### Revision of IPSAS 39 as a result of [draft] *Improvements to IPSAS, 2018*

BC23. The IPSASB reviewed the revisions to IAS 19, *Employee Benefits*, included in *Plan Amendment, Curtailment or Settlement* (Amendments to IAS 19) issued by the IASB in February 2018, and the IASB's rationale for making these amendments as set out in its Basis for Conclusions. The IPSASB generally concurred that there was no public sector specific reason for not adopting the amendments.

199650.1

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XRB | NZ AUDITING AND ASSURANCE STANDARDS BOARD

DO YOU IMPOSE ASSURANCE ENGAGEMENTS?

# A guide for prescribers of assurance engagements

## IN THIS GUIDE

- Use correct terminology
- Who undertakes the engagement?
- Specify level of confidence
- Consider practicality

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

NZ AUDITING AND ASSURANCE STANDARDS BOARD

The NZAuASB is a committee of the XRB established under Schedule 5 of the Crown Entities Act.

The NZAuASB has delegated authority from the XRB to develop, or adopt and issue auditing and assurance standards for assurance practitioners (including professional and ethical standards).

## NZAuASB standards

Assurance standards issued by the NZAuASB are provided across three key categories:

1. **Professional and ethical standards** – these standards specify the ethical principles and quality control requirements that all assurance practitioners must adhere to.

2. **Standards for assurance engagements over financial statements** – these are the two most common assurance engagements – audit and review of the financial statements. These have been developed to provide greater confidence in the information included in the financial statements.

3. **Standards for assurance engagements other than audits and reviews** – these standards can be customised by an expert assurance practitioner to apply to a wide range of matters other than annual financial reports.

Professional & Ethical Standards (PES)

Auditing Standards (Au)

Review Standards (RE)

Other Assurance Standards (OA)

# Introduction

As prescribers — regulators, government departments and others — often require entities to seek professional services. This is to establish a level of trust and confidence over specified information, such as financial reports.

An assurance engagement—performed in accordance with the assurance standards issued by the New Zealand Auditing and Assurance Standards Board (NZAuASB)—is one such example.

There are also other professional services that, while they may enhance confidence in information, they are not "assurance engagements" as defined by or performed in accordance with the NZAuASB's assurance standards.

It is therefore important to consider:

- If there is a statutory reason for requiring such services to be undertaken in accordance with the NZAuASB's assurance standards;
- Why you require professional services along with the users who stand to benefit from the service;
- If the expected service is either one carried out by a professional practitioner who complies with the NZAuASB's standards (see page 8 for more information), or one carried out by a practitioner who undertake services in accordance with standards other than those issued by the NZAuASB[1];
- Whether the user's expectations align with what an assurance engagement can actually deliver; and
- If an agreed upon procedures (AUP) engagement[2] would be more appropriate in the circumstances.

---

1 e.g. standards issued by the International Organization for Standardization (ISO) or Standards New Zealand;

2 An AUP engagement involves a practitioner performing procedures that have been agreed to by the practitioner, the entity and any appropriate third parties, and reporting on the factual findings based on the procedures performed. In conducting an AUP engagement, the practitioner does not express an opinion. Users of the AUP report assess for themselves the factual findings based on the procedures performed and draw their own conclusions. AUP engagements are not currently included in the NZAuASB's mandate, more information is available from Chartered Accountants Australia and New Zealand (www.charteredaccountantanz.com)

This guidance applies only to those situations where as a prescriber you have concluded that an assurance engagement in accordance with the NZAuASB's standards is the appropriate course of action.

In requiring such an assurance engagement, it is important to ensure that:

- You appropriately address the needs of the expected users of the engagement (the users) ;
- The entity required to arrange the assurance engagement (the engaging party) has a clear understanding of the engagement and who it should approach to undertake it; and
- The assurance practitioner finds the engagement's description is consistent with the relevant NZAuASB's assurance standards, including any ethical and professional requirements (if not, the practitioner may conclude that they are unable to undertake the engagement).

As prescribers of assurance engagements, you need to describe the engagement clearly and accurately to achieve the above.

This guidance provides an overview of relevant matters to consider here.

You will find this guidance helpful when:

- New legislation is being proposed and/or where existing legislation is being revised or clarified and where an assurance engagement will be a requirement.
- You are drafting documentation where an assurance engagement is required.

# What do I need to know?

## This involves describing the engagement and specifying its scope.

- To ensure that both users'/prescribers' expectations are fully met, and to avoid the possibility of misleading those involved in undertaking the engagement, you must make the description of the engagement accurate and clear.

  Explicitly requiring the engagement to be conducted in accordance with the NZAuASB's standards is a good start.

- It is also very important for the independent assurance practitioner to understand the scope of work to be undertaken and the form of report to be provided.
- In particular, there is a need to be clear about what is within in the scope of the work to ensure intended users' expectations of the engagement are appropriate. The scope determines the nature and extent of testing that will be required.

The following diagram provides a list of the key considerations to assist prescribers to properly describe the engagement.

1. **Use correct terminology to describe the engagement**
2. **Specify who is expected to undertake the engagement**
3. **Specify the required level of confidence**
4. **Consider the practicality of the engagement**

1

# Use correct terminology to describe the engagement

Some terms have specified meanings under the NZAuASB's assurance standards. Unless these terms are used carefully, the information could be misleading to users[1].

The first step in ensuring correct use of terminology is to match the type of information to the corresponding assurance engagement. From this perspective, information types can be categorised into two general categories: historical financial information vs other types of information.

## Historical financial information

Information that is typically included in an entity's financial statements is called "historical financial information". Assurance engagements over financial statements are the best known and most commonly used assurance engagements: audit or review engagements.

- An audit is a reasonable assurance engagement (see page 10) over historical financial information.

  Here an independent assurance practitioner (called an independent auditor) provides their opinion as to whether the financial statements are prepared in accordance with the applicable financial reporting framework.

- A review is a limited assurance engagement (see page 10) over historical financial information that is less thorough and detailed than an audit.

  Here the independent assurance practitioner provides a conclusion as to whether anything has come to their attention to indicate that the financial statements have not been prepared in all material respects, in accordance with the applicable financial reporting framework.

1 Appendix 1 on page 14 provides examples of misleading communications.

## Other types of information

Assurance engagements over all other subject matter types (other than "historical financial information") are dealt with under the "Other Assurance Engagement" standards. These standards can be applied to a wide range of information.

- ISAE (NZ) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, is the umbrella standard for other assurance engagements,. You can use it with topic-specific standards, where relevant. The NZAuASB has issued the following subject matter-specific other assurance standards:
  - SAE 3100 (Revised), *Compliance Engagements*
  - SAE 3150 (Revised), *Assurance Engagements on Controls*
  - ISAE 3402, *Assurance Reports on Controls at a Service Organisation*
  - ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*
  - ISAE 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*
- Other assurance engagements can be undertaken as reasonable or limited assurance engagements (see page 10 for more information).

An important consideration when requiring other assurance engagements is their practicability (see page 12 for more information).

## How to describe an assurance engagement

Appendix 3 provides summarises the appropriate key terms to describe an assurance engagement.

2

# Who is expected to undertake the engagement?

In New Zealand, statutory assurance engagements performed in accordance with the NZAuASB's standards are required to be performed by assurance practitioners with specified credentials.

Appendix 2 provides an overview of the various credentials given to New Zealand assurance practitioners at present.

Some legislation specifies that the assurance practitioner is required to comply with standards issued by the NZAuASB. This includes compliance with ethical and quality control standards and may specify any additional credentials required.

Members of professional accounting bodies (such as Chartered Accountants Australia and New Zealand (CAANZ) and CPA Australia) are also required to comply with all the relevant standards issued by the NZAuASB when undertaking an assurance engagement, statutory assurance or otherwise. However, membership of a professional accounting body does not automatically make the member eligible for undertaking an assurance engagement.

In addition to such membership, assurance practitioners need to have a certificate of public practice.

They also need to be subject to initial and continuing professional development, as well as ongoing monitoring and disciplinary regimes. These ensure the quality of assurance services and compliance with professional and ethical standards.

NZAuASB's standards may be used by individuals who are NOT accredited members of any professional accounting body.

Here, they can only assert compliance with those standards if they comply with them, together with the professional ethical and quality control standards issued by the NZAuASB, or similar standards that are at least as demanding as those issued by the NZAuASB.

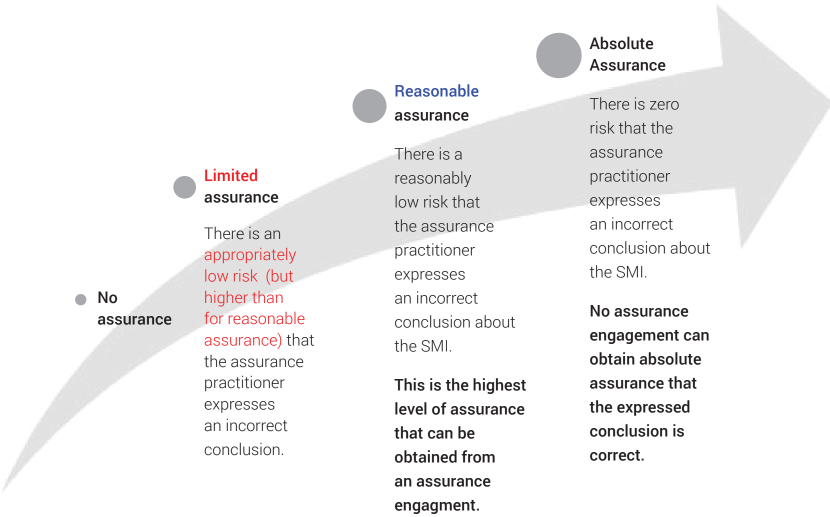
In this case, it is recommended that you consult an appropriately qualified evaluator to evaluate the alternative ethical and quality control standards against the NZAuASB standards.

# 3 Specify the required level of confidence

No assurance engagement can obtain absolute assurance about the engagement subject matter. Instead, assurance practitioners can be engaged to obtain either:

- Reasonable assurance (a high level of assurance, which is less than absolute assurance) from obtaining sufficient and appropriate evidence. This then allows the assurance practitioner to express a positive opinion over the subject matter information (SMI); or
- Limited assurance (a meaningful level of assurance, which is more than inconsequential, but is less than reasonable assurance) from obtaining sufficient and appropriate evidence. This then allows for the assurance practitioner to express a negative conclusion over the subject matter information (SMI).

Because the level of assurance obtained in a limited assurance engagement is lower than in a reasonable assurance engagement, the procedures the practitioner performs in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement.



The table compares reasonable and limited assurance.

| Reasonable Assurance Engagement | Limited Assurance Engagement |
|---|---|
| Designed to provide a **reasonable** level of assurance.<br><br>The reasonable assurance report opinion: Expressed in positive form:<br><br>*"...In our opinion, the subject matter information presents fairly..."*<br><br>Provides a high, but **not absolute** level of assurance. | Designed to provide only **limited** assurance.<br><br>The limited assurance engagement conclusion:<br><br>Expressed in the negative form:<br><br>*"...based on the work performed, as described in the report, nothing has come to our attention..."*<br><br>Provides a lower level of assurance than from a reasonable assurance engagement. |
| Assurance that the subject matter information is not materially misrepresented. | Increased risk that assurance practitioner may not become aware of significant misrepresentation in the subject matter information. |
| Drives a higher level of work effort. | Drives a lower level of work effort and potentially a different testing approach. |

It is important that prescribers clearly specify their expected level of confidence from the assurance engagement (e.g. a reasonable or limited assurance engagement).

4

?

# Consider the practicability of the engagement

Existence of suitable criteria is a fundamental element of an assurance engagement. Suitable criteria[1] are required for reasonably consistent measurement or evaluation of the engagement's subject matter.

Assurance engagements can be undertaken only over subject matters that:

- are identifiable and measurable against suitable criteria (i.e. the benchmarks used for evaluation of the subject matter), and
- can be subjected to procedures to gather evidence sufficient to support the required assurance conclusion.

Without the frame of reference provided by suitable criteria, any conclusion is open to individual interpretation and misunderstanding.

Therefore, it is important for you as the prescriber to consider (and where appropriate specify) the suitable criteria for the assurance engagement.

Another important matter is the availability of relevant evidence. Evidence is information used by the assurance practitioner to arrive at their conclusion. You will need to consider whether the practitioner can reasonably be expected to be able to:

- Obtain the evidence needed to support the assurance practitioner's conclusion, and
- Have access to records, documentation and other information the assurance practitioner may require as evidence to complete the engagement.

Finally, note that it is impractical for an assurance practitioner to address all information that may exist or to pursue every matter exhaustively on the assumption that information is in error or fraudulent until proven otherwise.

---

1 For more information on suitable criteria please refer to ISAE (NZ) 3000 (Revised), paragraphs A45 to A50.

An assurance engagement does not consider *every single component* of the underlying subject matter information.

Instead, assurance practitioners express their opinions (in reasonable assurance engagements) or their conclusion (in limited assurance engagements) in relation to information that is material to the intended users.

Information is material if its misstatement, including omissions, could reasonably be expected to influence relevant decisions of intended users taken on the basis of the subject matter information.

It is important that an assurance engagement is prescribed to reflect the fact that materiality considerations are relevant and applicable to the engagement.

## Appendix 1: Examples of inaccurate descriptions of assurance engagements

| Inaccurate | Improved |
| --- | --- |
| The assurance practitioners are required to undertake a review of financial statements and to provide an audit opinion about the report. | Review and audit are two different types of assurance engagements (see page 6).<br><br>The assurance practitioner should either be asked to review the financial statements to provide a review report or to audit the financial statements and to provide an audit report. |
| The assurance practitioners are required to perform an Agreed Upon Procedures (AUP) engagement over certain information and to provide an opinion if the information is fairly presented. | An AUP engagement includes presentation of facts as agreed. It is not an assurance engagement and should not be described in a manner that implies it is.<br><br>You need to carefully consider your needs and circumstances to determine if you require an AUP engagement or an assurance engagement. |
| An auditor is required to verify completeness of certain information not included in the financial statements as part of their audit. | There are two issues:<br><br>1. the required matter is outside the scope of an audit engagement. It should clearly be required as a separate engagement.<br><br>2. The term “verify” implies an absolute level of assurance. It is important the required assurance engagement is phrased appropriately to avoid implying that it is absolute. For example, it is always helpful to state that the assurance practitioner is expected to provide an opinion (not to “verify”) as to whether certain type of information is complete in all material respects. |

## Appendix 2: Assurance practitioners with recognised credentials

| Title | Entity | Description |
|---|---|---|
| Licensed Auditor | The Financial Markets Authority (FMA) | This is the highest level of a statutory recognition an assurance practitioner auditing or reviewing the financial statements may obtain in New Zealand. A licensed auditor is permitted to audit or review (in accordance with the NZAuASB's assurance standards) the financial statements of FMC Reporting entities. |
| Qualified Auditor | Chartered Accountants Australia New Zealand (CA ANZ) | CA ANZ members who are recognised as "qualified auditors" are permitted to audit or review (in accordance with the NZAuASB's assurance standards) the financial statements of registered charities. |
| A chartered Accountant with a Certificate of Public Practice (CPP) | CA ANZ, and CPA Australia | This is the starting level of professional recognition for a chartered accountant who provides assurance services over financial statements. A CPP holder is permitted to conduct audit and review (in accordance with the NZAuASB's assurance standards) on financial statements for all entities, except for those that are restricted to licensed or qualified auditors. |
| The Auditor-General | The Public Audit Act 2001 | The Auditor-General is responsible for auditing all public entities. |

## Appendix 3: Key terms to describe an assurance engagement

The table summarises the appropriate key terms to use to describe an assurance engagement.

| Information Type | Assurance Level | Engagement Title | Assurance Practitioner |
|---|---|---|---|
| Historical financial Information | Reasonable | Audit | The independent auditor |
| | Limited | Review | The independent assurance practitioner |
| Other information | Reasonable | Reasonable Assurance Engagement | The independent assurance practitioner |
| | Limited | Limited Assurance Engagement | The independent assurance practitioner |

XRB
EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

NZ AUDITING AND ASSURANCE STANDARDS BOARD

## WHAT DRIVES SMALL CHARITIES TO OBTAIN ASSURANCE OVER THEIR FINANCIAL STATEMENTS?

# Small charities' assurance needs

## IN THIS BOOKLET

The External Reporting Board is the independent Crown Entity responsible for accounting and assurance standards in New Zealand. The New Zealand Auditing and Assurance Standards Board (NZAuASB)  has delegated authority from the XRB Board to develop or adopt, and issue audting and assurance standards.

All XRB standards are designed to give New Zealanders trust and confidence in the financial reporting of our organisations , across the corporate, not-for-profit and public sectors.

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# Contents



# Introduction

We wanted to understand:

- What drives small charities[1] to obtain assurance over their financial statements? and
- Are the needs of funders, such as philanthropic funding organisations (PFOs) and government agencies) appropriately addressed by the assurance engagement?

We will use the results of our research to decide whether a new simple assurance engagement should be developed for small charities.

1 Those charities with annual expenditure between $125k and $500k with no statutory requirement for an audit or a review.

# Methodology

We used a combination of methods, including:

- Interviewing a sample of philanthropic funding organisations — large government funding agencies (such as the Ministry of Social Development and the Minsitry of Health), both private large and small local funding organisations.
- Interviewing appropriate staff of Charities Services.
- Reviewing information available via the websites of philanthropic funding organisations and government agencies.
- Reviewing New Zealand and international research literature.
- Surveys.
- Analysing data extracted from the Charities Register.

# Key Findings

1. Most small charities have their financial statements audited or reviewed because their founding documents require them to do so.

2. While most small charities use a combination of income sources to fund their operations, they are different in terms of their dependency on a single source of income.  Income source dependency has a significant impact on type, amount and format of information a small charity needs to provide to its stakeholders.

3. Small charities that mainly depend on small contributions from a large number of individuals (donors) tend to experience low demand for formal and structured communication of information (low demand stakeholders).

   On the other hand, small charities that derive a significant portion of their income from providing services to government agencies need to provide a considerable amount of information in a structured and formal manner (high demand stakeholders).

4. Stakeholders with high information demands require information about matters such as governance and management capabilities of a small charity. Lack of generally accepted criteria or framework for preparation of such information:

   - negatively affects the charity’s ability to prepare such information,
   - causes inconsistent or duplicated demands for information from different government agencies,
   - causes stakeholders to use audit and reviews of financial statements as proxies for this information (also see item 8 below).

5. Government agencies that engage small charities as service providers require them to have their financial statements audited or reviewed.

6. Philanthropic funding organisations (PFOs) are satisfied with the statutory framework for assurance engagements over charities’ financial statements. They are unlikely to demand audited or reviewed financial statements from small charities.

7. Lack of an appropriate level of accounting and financial reporting knowledge amongst the users of small charities’ financial statements within government agencies and philanthropic funding organisations negatively impacts the usefulness of these reports.

8. Unfamiliarity with financial reporting also causes misplaced confidence on assurance reports over these financial statements and may cause these users to less carefully analyse the small charities’ financial reports for their purposes.

   Assurance reports may be perceived as a certificate of a high quality financial management system (e.g. risk of fraud is well managed, resources are spent according to the funding contract, the entity is financially viable and well managed etc.)

9. Both government agencies and PFOs have significant information needs for assessing the capabilities of small charities. Most of the information they require is not included in the small charities’ annual reports.

10. Both PFOs and government agencies are very interested in knowing if a small charity properly manages its financial affairs (e.g. risk of fraud is well-managed). Financial information included in the financial statements does not provide them with all the relevant information to make this decision.

11. Many small charities consider it prudent to obtain some form of external scrutiny over their financial operations and reports. However, a perceived lack of value for money of audit and review engagements is a significant deterrent for small charities to use these assurance products.

12. Small charities are very likely to use the services of chartered accountants in preparing their year-end financial statements as they are unlikely to have inhouse resources with adequate financial reporting expertise.

# Conclusions

1. The information needs of certain high-demand stakeholders are not addressed at present. Appropriate criteria need to be developed to more effectively address such information needs.

2. For example, both government agencies and PFOs would find information about whether a charity has appropriate and effective internal financial controls in place (to protect the charity's assets, deter fraud, reduce the risk of waste and loss, properly manage conflicts of interest etc.) of great interest.

   However, lack of a generally-accepted framework of internal financial controls (that is suitable for small charities) could prevent a charity's ability to:

   - develop and implement such capabilities and
   - communicate these capabilities to concerned stakeholders.

3. There seems to be a lack of understanding by key stakeholders of small charities about:

   - the value of audit or a review engagement and what can reasonably be expected from these engagements, and

    - assurance engagements other than audit and review engagements that may better suit assurance needs of stakeholders of small charities.

4. Small charities are unlikely to have adequate resources for both a professional accountant preparing their financial statements and paying for an audit or a review by a qualified auditor.

5. More research is needed to understand if new types of professional services can be developed that will maximise the value for money for small charities.

# Recommendations

- Liaising with Charities Services of the Department of Internal Affairs along with the professional accounting bodies to use the guidance we already have to raise awareness about audits/reviews and other assurance engagements amongst key stakeholders of small charities.

- Further exploring the viability of the development of a new engagement standard and/or guidance for small entities as an alternative to an audit or review. For example, such an engagement could encompass helping small charities prepare their financial statements, verify key information against appropriate records, review key internal controls and provide feedback on how these can improve.

- Sharing the findings of this research with interested parties such as Charities Services, professional accounting bodies etc.

# Charities' perspectives

According to information we extracted from the Charities Register, there are 2,565 charities with a total annual expenditure between $125K and $500k (referred to as small charities from now on) with financial year-ends on 31 March 2016 and onwards.  These charities have submitted their annual reports for their most recent financial year. There is no statutory obligation for them to have their financial statements audited or reviewed.

The following table summarises the number of small charities that had their financial statements audited or reviewed in their most recent financial year compared to those who had not:

## Comparing those with audited and reviewed financial statements vs those without

| Founding document requires financial statements to be audited or reviewed | Financial statements audited or reviewed | No assurance engagement required | Total |
|---|---|---|---|
| Yes | 1,507 | 92 | 1,599 |
| No | 122 | 844 | 966 |
| Total | 1,629 | 936 | 2,565 |

Table 1 shows 1,629 out of 2,565 small charities (64%) had their financial statements audited or reviewed in their most recent financial year. This is despite the fact that there are no statutory requirements for the small charities to do so.

Less than 13% (122 out of 966) of small charities that did not have a requirement in their founding documents to have their financial statements audited or reviewed, have done so.  This suggests the main reason small charities have their financial statements audited or reviewed is that their founding documents require them to do so.

Interviews with PFOs and reviews of their guidelines for grant applications indicate that there is no pressure from them for small charities to have their financial statements audited or reviewed. However, there is pressure from government agencies with significant service contracts (with significance thresholds varying between government agencies) on small charities for audited financial statements.

An analysis of the data we extracted from the Charities Register also supports the above.

## Average income by source — those with audited or reviewed financial statements vs those without

| Source of income | Audited or reviewed financial statements | | No assurance engagement | |
|---|---|---|---|---|
| | Amount | % of income | Amount | % of income |
| Providing goods or services | $112,646.93 | 39% | $71,121.26 | 27% |
| Donations / Koha | $101,982.72 | 35% | $107,914.08 | 40% |
| Interest and Dividends | $22,380.27 | 8% | $32,725.75 | 12% |
| Membership fees and subscriptions | $29,730.50 | 10% | $29,409.34 | 11% |
| All Other Income | $21,215.92 | 9% | $26,760.85 | 10% |
| Total | $287,956.33 | | $267,931.29 | |

Table 2 shows the average income of all small charities (in their most recent financial year) by source of income and compares this average between those charities that have their financial statements audited or reviewed and those that have not.

- Charities that have their financial statements audited or reviewed depend more heavily on income from providing goods and services (39% of their total income).

  Small charities with no assurance engagements are not as dependent on this source of income (27% of total income their total income is from providing goods and services).

- Income from providing goods and services is the main source of income of small charities that have their financial statements audited or reviewed. It is, however, the second source of income for those charities with no assurance engagement.

- Charities that have their financial statements audited or reviewed receive an average of $41,526 more income providing goods and services (compared to those with no assurance).

Interestingly, small charities with no compilation engagements over their financial statements receive more donations (including grants from PFOs) compared to the other group.

Another interesting finding is that 50% of small charities[2] that did not have their financial statements audited or reviewed in their most recent financial year, have their financial statements compiled by a chartered accountant. Lack of in-house capabilities for preparing financial statements is the main reason here.

Nevertheless, assurance engagements are seen by those charged with

2 This number is based on reviewing financial statements of a randomly selected sample of 212 small charities from the data extracted from the Charities Register. It should be noted only those small charities that included a compilation report in their financial statements were counted as "used compilation services". The actual number of small charities who use services of a chartered accountant to prepare their year-end financial statements is likely to be even higher.

governance of small charities as a mechanism to provide credibility to their financial statements. Prior New Zealand and international research has shown that those charged with governance of small charities (with the exception of religious organisations) demand some form of scrutiny over the financial statements for both:

- their own peace of mind, and
- signalling proper financial conduct to those who appointed them as members of the governing body of the small charity.

# PFOs' perspectives

## Do Philanthropic Funding Organsiations (PFOs) currently require assurance over small charities' financial statements?

PFOs are unlikely to require any assurance over the financial statements of small charities unless it is required by the charity's founding documents.

It is important for PFOs that an applicant charity complies with its founding document's requirements. The assurance report is more a signal of good governance than the report being useful by itself.

It is usual that PFOs' organisational structure and administrative processes are such that the financial statements and associated assurance reports (if any) of applicants are seen only by funding officers reviewing the funding applications.

Some of these officers do not have an adequate understanding of assurance reports over charities' financial statements. For example, they may be unaware that there are differences between an audit and a review, or what is conveyed by an assurance report, etc.

## What are the PFOs' potential assurance needs in for small charities that are not currently addressed?

PFOs' assurance needs are aligned with their information needs.

A typical PFO will require information:

- In considering a funding application or a funding candidate (pre-engagement).
- In reviewing disbursed grants (post-engagement).

## Pre-engagement information needs and associated

## assurance needs

At the pre-engagement stage PFOs require information in relation to the following key questions.

| What difference does the entity want to make? | How is the entity going to make this difference happen? | Is the entity capable of sucessfully executing the plan? |
|---|---|---|
| Does this difference align with what the PFO wants to support | Does the entity's plan add up? | How has the entity performed in the past? |
| Is the entity eligible for the PFO funding? | Is this plan effective and efficient? | What difference does the entity want to make? |
| | Is the plan better than competing proposals? | How much is the entity's social capital? |
| | | Is the entity sustainable? |

PFOs collect their information from various sources including the funding application, the charity's annual report, Charities Register, the charity's website and social pages etc.

The extent of information a PFO accumulates at this stage is significantly affected by:

- what a PFO already knows about the charity (e.g. from prior engagements, reputation and brand of the charity in the community, etc.);
- the requested amount of funding (e.g. small vs substantial) and its intended purpose (e.g. if it is expected to be spent on something tangible and easily verifiable like buying new carpets for a kindergarten).

PFOs spend time and resources to verify certain facts about an entity. These facts can be generally categorised under “entity background information”. A significant portion of this information is readily available on the Charities Register and/or the charity’s website.

In the absence of independent assurance about the validity of this information, PFOs need to verify this information for themselves. Independent verification of such information may help. This is an area where auditors of financial statements can add value from information already collected as part of their audit or review.

The most important aspect of assessing the capabilities of a charity is its performance.

PFOs welcome the addition of a Statement of Service Performance (SSP) to charities’ annual reporting requirements. However, the information presented in the SSP of a Tier 3 charity is not always very useful.

This is because:

- Tier 3 entities are required to report only what outcomes they want to achieve (which are usually those already outlined in a variety of sources such as the entity’s founding documents, its website, its application proposal etc.).
- Usefulness of output information is determined by how closely the outputs are correlated with the overall desired outcome the charity seeks to achieve or contribute to.

  For example, output information provided on a ‘children learn to swim’ programme (with the objective of reducing child drowning) is likely to be useful information.

  However, output information about the number of people who completed a family budgeting course (to reduce financial distress for low income families) is unlikely to be useful without additional information about the impact of the classes.

Accordingly, PFOs do not see a need for obtaining assurance over SSP (except for when there is well-established expectation about the relationship between outputs and outcomes).

'Social capital' can be defined as "features of social organisations such as networks, norms and trust that facilitate co-ordination and cooperation for mutual benefit" (Putnam, 1995:35).

Some of the fundamental elements constituting a charity's social capital are:

- the level of support a charity receives from other entities and volunteers,
- how well it is embedded in the community,
- its institutional and community knowledge,
- its networking and collaboration capabilities, and
- the level of trust of beneficiaries.

PFOs consider charities' social capital to be very important and they would be keen to obtain information related to social capital (usually from their own officers' knowledge of the charity, its community and environment).

This is an area where the PFO's information needs are not very well addressed at present. PFOs welcome efforts into developing frameworks for measuring/evaluating social capital that can be used by small charities. Given that such information is not available in a structured manner at present, there is no associated assurance demands.

Charities' governance and management capabilities (e.g. financial management, level of compliance with laws and regulation, operational efficiency etc.) is an important consideration.

However, this is another area where the PFOs do not receive the information they require in a structured manner. For example, it is important for a PFO to know if the applicant charity has internal controls in place to:

- protect the charity's assets.
- identify and manage the risk of conflicts of interest, loss, waste, bribery, theft or fraud.

- ensure that financial reporting is robust and of sufficient quality.
- ensure that those charged with governance of the charity comply with charities law and regulations relating to finance.

This is an area that there is a demand for assurance[3] . There will be value in providing assurance if a charity is following best practices in areas of governance and financial management.

However, the prerequisite of such an assurance engagement is the availability of an appropriate and generally accepted framework for such matters. For example, the Charities Commission for England and Wales has issued guidance entitled “Internal Financial Controls for Charities”. Assurance practitioners can use this to evaluate a charity’s internal controls against such criteria and provide assurance to external parties such as PFOs.

A charity’s financial sustainability is a key consideration for the PFOs. PFOs use information included in the financial statements (e.g. diversity of and dependency on sources of income, level of reserves, going concern disclosures) and the charity’s budget to establish if the charity is financially viable.

However, they would consider it helpful if such an assessment was completed by those charged with governance of the charity and shared with them. For example, the Charities Commission for England and Wales requires charities to perform an evaluation of why they will be financially viable in the near future and to report this in their annual report.

An example of how PFOs currently obtain information about a charity’s capabilities is the Ministry of Social Development’s risk assessment tool for its funding officers. Information provided in relation to these items is likely to be useful to other PFOs as well.

3 Some PFOs officers incorrectly perceive an audit or a review of financial statements as a stamp of approval for NFPs’ financial and operational capabilities and internal controls. Accordingly, they expect an audit or a review engagement to meet their assurance needs for matters that are not in the scope of an audit or a review engagement.

## Post-engagement information needs and associated assurance needs

PFOs usually request the charity to report back on any funding it has received.

- **Financial Accountability:** Did they spend the funds on what they said they would do, so the money was not wasted?

- **Performance of the project:** This is mainly how well the intended outcomes were achieved. The funders are open to failure realising that not all efforts are likely to result in success.

  But it is important to ensure that valuable lessons are learned which can propel the funded organisation forward for their future endeavours.

PFOs are likely to verify how the money is spent by requiring the funded charity to provide evidence for the expenditure.

Also, they may undertake random audits to ensure that the grant funding is spent as it should have. The interviewed PFOs believed that such procedures are adequate in addressing their assurance needs, especially in relation to small charities.

PFOs are also likely to require non-financial performance information. However, there seems to be no formal verification of the non-financial performance information. This is likely because PFOs are not accountable for the charity's performance and so there is not a strong assurance need in relation to this information.

# Government agencies' perspectives

## Do government agencies currently require assurance over small charities' financial statements?

Different agencies have different requirements for entities that they contract as service providers (including small charities).

Some examples are as follows:

- The Ministry of Education (MoE) requires all entities whose services they fund to have their general purpose financial statements or special purpose financial report audited by a chartered accountant who is a member of the New Zealand Institute of Chartered Accountants (NZICA).

- The Ministry of Social Development (MSD) has four levels of accredited service providers. Level 1 has the highest accreditation standards and level 4 the lowest. The MSD requires service providers that need to be accredited under levels 1 to 3 and that receive $100,000 or more per annum from the Government to provide audited financial statements.

  Where the organisation receives less than $100,000 per annum from the Government, it must provide evidence that it meets the applicable statutory requirements for audit and review. The organisation must meet the audit requirements under its constitution or contract agreements.

- The Ministry of Health (MoH) does not have a standard requirement for assurance over the financial statements of its service providers.

There is therefore pressure from some government agencies on small charities (with no statutory audit or review requirement) to have their financial statements audited or reviewed.

## What are agencies' assurance needs for small charities that are not currently addressed?

Agencies engage small charities as service providers. Their assurance needs are aligned with their information needs.

They need information:

- when considering a small charity as a service provider candidate (pre-engagement);
- in monitoring and reviewing the small charity's service performance (post-engagement).

## Pre-engagement information needs and associated assurance needs

At this stage, the agency's main objective is to establish the charity's service delivery capabilities. These are considered in the context of the sensitivity of the service, associated risks and the amount.

Crown agencies responsible for social sector purchasing (MSD, MoH, MoE, Ministry of Justice, the Department of Corrections and Te Puni Kōkiri) have agreed to use 10 social sector accreditation standards to assess their service providers.

This assessment process is called " accreditation", and allows a common understanding of provider capability and capacity.

One of the 10 standards is on "Financial Management and Systems". The objective of this standard is to determine if the organisation is financially viable and manages its finances competently.  The standard requirements vary for different levels of accreditations required.

Table 3 demonstrates how the requirements gradually reduce from the highest level of accredited service providers to the lowest level.

| Applicable Standards | Levels 1 & 2 | Level 3 | Level 4 |
|---|---|---|---|
| The organisation is financially viable | √ | √ | √ |
| The organisation has an effective financial management system appropriate to the size and complexity of the organisation | √ | √ | √ |
| The organisation has adequate insurance cover for the size and complexity of the organisation | √ | √ | √ |
| The organisation has arrangements for the regular independent audit, or in some cases review, of financial accounts | √ | √ | x |
| The organisation undertakes forward financial planning to show that it will remain financially viable | √ | x | x |

√ = is applicable; x = is not applicable

The information used by government agencies in evaluating the capacity and capabilities of a small charity is closely related to information collected by PFOs. Information included in the financial statements is only part of the information collected and evaluated by these two main stakeholders of small charities.

Currently no research has been undertaken to understand if other stakeholder groups (such as members) would want to receive some of the information government agencies and funding organisations request and receive.

Like funders, the government agencies' interest in small charities' financial statements seems to be mainly driven by their need to assess the charities' financial management and reporting "capabilities" rather than the results itself. This indicates that an assurance engagement to provide assurance over financial management systems and procedures (e.g. internal controls) is likely to be more closely aligned with the government agencies' assurance needs.

## Post-engagement information needs and associated assurance needs

An important feature of the relationship between the government agency and the charity is that the government agency is ultimately accountable for the charity's performance. A government agency needs to monitor the charity's performance in delivering the procured services and intervene when necessary to ensure that the quality of services and probity of expenditure are to their desired standards.

This focus on performance has resulted in government agencies requiring NGO service providers to report back against a Results-Based Accountability reporting framework (RBA), with outcomes being the main focus of the reporting.

The reporting requirements are incorporated in charities' funding contracts. The reporting templates are likely to include requirements for the charity to report on:

- Output (e.g. the number of beneficiaries, the number of service sessions and activities, Key Performance Indicators (KPIs))
- Outcomes

The required information is provided in a form of measured outputs and outcomes as well as narratives. The contracts are likely to include requirements for the charity to establish and maintain an information management system to support preparation of the information included in the contract reports. It seems to be a standard practice for government agencies to include an "audit clause" into their contract whereby the charities agree to provide access and support for the government agency's audits of the service performance and information.  The government agency determines the frequency and the extent of such audits.

For example, Central Region's Technical Advisory Services Limited (TAS) is likely to provide special purpose audits and evaluations to MoH and Regional District Health Boards.

Government agencies have adequate resources and infrastructure in place to address their assurance needs in relation to collected service performance information.

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NZ AUDITING AND ASSURANCE STANDARDS BOARD

The NZAuASB is a committee of the XRB established under Schedule 5 of the Crown Entities Act.

The NZAuASB has delegated authority from the XRB to develop, or adopt and issue auditing and assurance standards for assurance practitioners (including professional and ethical standards).

## NZAuASB standards

Assurance standards issued by the NZAuASB are provided across three key categories:

1. **Professional and ethical standards** – these standards specify the ethical principles and quality control requirements that all assurance practitioners must adhere to.

Professional & Ethical Standards (PES)

2. **Standards for assurance engagements over financial statements** – these are the two most common assurance engagements – audit and review of the financial statements. These have been developed to provide greater confidence in the information included in the financial statements.

Auditing Standards (Au)

Review Standards (RE)

3. **Standards for assurance engagements other than audits and reviews** – these standards can be customised by an expert assurance practitioner to apply to a wide range of matters other than annual financial reports.

Other Assurance Standards (OA)