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John Stanford
Technical Director
International Public Sector Accounting Standards Board
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Dear John

IPSASB Exposure Draft 67 Collective and Individual Services and Emergency Relief

We appreciate the opportunity to comment on the IPSASB's Exposure Draft 67 Collective and Individual Services and Emergency Relief (ED67).

We welcome the development of accounting guidance for collective and individual services. Given the significance of the provision of individual and collective services in the public sector, we consider this area of accounting deserves more prominence and should be addressed in the body of IPSAS 19 rather than as application guidance.

While we are broadly supportive of the proposals included in ED 67 for collective and individual services, we consider the IPSASB has further work to do to ensure there is sufficient clarity over the application of the emergency relief guidance. If the IPSASB is unable to achieve this clarity, we prefer that the emergency relief guidance is removed from the standard.

Our responses to the IPSASB's Specific Matters for Comment are attached.

In preparing this submission, we have consulted with our colleagues at the Office of the Auditor-General.

If you would like to discuss any of our comments, please phone me on +64 21 222 6107 or email me at robert.cox@auditnz.govt.nz.

Yours sincerely



Robert Cox
Head of Accounting

Our responses to the Specific Matters for Comment in Exposure Draft 63:

- 1. Do you agree with the definitions of collective services and individual services that are included in this Exposure Draft?**

If not, what changes would you make to the definitions?

Yes, we are comfortable with the definitions for collective and individual services.

- 2. Do you agree that no provision should be recognised for collective services?**

If not, under what circumstances do you think a provision should be recognised?

We agree with the accounting outcome that no provision is recognised for collective services before the services are delivered.

The proposed paragraph AG5 would benefit by including more examples of collective services and individual services.

Additionally, we recommend the discussion of the rationale for the proposed basis of accounting for collective services and individual services be strengthened. This will assist in applying the provisions standard to other government funding decisions.

We have some concerns that the application guidance could be interpreted broadly to mean provisions are never recognised under IPSAS 19 because they arise in connection with the delivery of collective services. For example, an entity that delivers collective services may have an onerous contract, rehabilitation obligation, or a restructuring obligation that should be recognised under IPSAS 19.

It would be helpful if the proposed guidance included discussion that entities that deliver collective services may need to recognise a provision under IPSAS 19 in connection with the delivery of collective services, such as for onerous contracts, rehabilitation obligations, or for restructuring.

Given the significance of the provision of individual and collective services in the public sector, we consider this area of accounting deserves more prominence and should be addressed in the body of IPSAS 19 rather than as application guidance.

- 3. Do you agree that no provision should be recognised for individual services?**

If not, under what circumstances do you think a provision should be recognised?

Our comments on individual services are as above for collective services.

- 4. Do you agree with the proposed accounting for emergency relief?**

If not, how do you think emergency relief should be accounted for?

We do not agree with the proposed requirements for emergency relief as drafted, as we consider the proposals are not sufficiently clear on what activities are caught by the emergency relief guidance and how that guidance applies.

Without a definition for emergency relief, it could be difficult to determine whether a transaction is within the scope of the guidance. Although paragraph AG19 helpfully provides a list of types of transactions that are emergency relief, we do not find it fully clear what transactions will be captured within the emergency relief guidance.

In the New Zealand context, government at various levels can incur different types of costs following an emergency. The table below provides some examples and the current accounting approach for these in New Zealand:

Expense example	Broad accounting approach currently applied in NZ
Search and rescue services and military personnel to support relief and recovery.	Consistent with proposed collective services.
Emergency welfare centres providing food and shelter	Recognise costs as incurred.
Emergency cash benefits to support households.	Consistent with social benefits.
Grants to non-government organisations.	Can vary depending on grant terms and because of no clear IPSAS guidance on grant accounting. Expense may be recognised upon approval of the grant, as cash is paid, or when conditions of the grant are satisfied.
Payments from central government to local government following a natural disaster to recompense for costs incurred in: <ul style="list-style-type: none"> - emergency response costs (e.g caring for displaced people, initial repairs to key infrastructure, such as water supply); and - recovery costs (repair and reinstatement of damaged infrastructure assets, e.g. water, electrical, sewers). 	Apply IPSAS 19, which generally results in a liability being recognised when it is determined that a natural disaster meets the criteria to be covered by the government's specific emergency funding policy.
Insurance type payments from our public sector Earthquake Commission for natural disaster damage to residential property.	Apply an insurance-based standard PBE IFRS 4 <i>Insurance contracts</i> , which results in a liability being recognised upon the occurrence of a natural disaster covered by the EQC scheme.

We consider the exposure draft should be clearer as to which of the above types of expenses are intended to be covered under the emergency relief guidance. We note some of the above have characteristic of grants and transfers, which is subject to a separate IPSASB project. For these transactions, there will need to be clear guidance on when the emergency relief accounting in IPSAS 19 applies and when the future grants and transfers pronouncement will apply.

The provision of emergency relief in the New Zealand context is often provided to local communities rather than to individuals or households. For example central government can provide funding to local government for emergency relief, recovery and repair of local infrastructure after earthquakes, severe storms or floods. We therefore recommend that the scope be widened and references to “individuals and/or households” in paragraphs AG17 and AG19 be amended to also refer to “local communities” or “local government”.

We also consider that the exposure draft is not sufficiently clear in distinguishing whether emergency relief “is in response to specific emergencies” or it is delivered as “an ongoing activity of government (or other public sector entity) and is analogous to the delivery of collective services and/or individual services”.

In New Zealand, there are public sector entities that have been established to provide financial support to household/ individuals/ local communities for relief, recovery and damage repair following natural disasters. These entities respond to specific events under existing legislation or government policies and this is part of the normal activities of the entity. The number of events and the extent of support provided by the entity each year will vary and depend on the nature and severity of the events that occur.

For these entities, we find the exposure draft unclear whether the financial support provided is caught by the guidance on response to specific emergencies (paras AG20-21) or is part of emergency relief delivered as an ongoing activity (AG22). If it is viewed as an ongoing activity, it is unclear whether the financial support is analogous with collective and individual services, as it is unclear what facts are relevant in making this analogous assessment.

The New Zealand entities mentioned above currently recognise a liability upon the occurrence of a natural disaster, if they are required to provide financial support for relief and recovery under legislation or formally agreed policy criteria (in the early stages of relief it may be that no liability is recognised due to inability to reliably measure the likely costs).

We are concerned that application of the emergency relief guidance as drafted could result in a significant delay in liability recognition, where there are entities in existence that are tasked with providing emergency relief when emergencies occur and this could result in less meaningful financial reporting.

We also recommend that the IPSASB provide specific guidance for an entity that provides support in response to natural disasters under legislation in a manner that is analogous with an insurance contract. For example, in New Zealand the Earthquake Commission (EQC) under legislation accepts certain risks arising from natural disasters up to a specified limit for those households they pay a levy to the EQC. We consider that it is more appropriate for such an entity to apply an insurance-based accounting standard, notwithstanding there is not an insurance contract because the obligation to pay the levy arises under statute. We note such an approach was taken in developing IPSAS 42 *Social Benefits*, where entities can elect to apply an insurance-based accounting standard for a social benefit scheme that has characteristics of an insurance contract.