

8 December 2017



Mr John Stanford
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International Public Sector Accounting Standards Board
International Federation of Accountants
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Dear John

**Request to comment on IPSASB consultation paper on
Accounting for Revenue and Non-Exchange Expenses**

Thank you for the opportunity to comment on the above consultation paper. We are commenting on this consultation paper to assist the International Public Sector Accounting Standards Board to understand the implications of accounting for revenue and non-exchange expenses in a public sector setting.

We are happy for you to publish our comments.

Whanganui District Health Board is a Crown entity under the Crown Entities Act 2004 (New Zealand) and is responsible for:

- improving, promoting and protecting the health of its community.
- promoting the integration of health services, especially primary and secondary care services.
- promoting the effective care or support of those in need of personal health services or disability support.

Our views in this submission have been formed through the practical application of relevant standards and the challenges that this creates. In expressing our opinions we have attempted to maintain a balance between maintaining integrity of the reporting framework and reflecting the reality of various revenue and expenditure streams.

Yours sincerely



Brian Walden
General Manager Corporate

Request for comments

Preliminary view 1 (following paragraph 3.8)

The IPSASB considers that it is appropriate to replace IPSAS 9, Revenue from Exchange Transactions, and IPSAS 11, Construction Contracts with an IPSAS primarily based on IFRS15, Revenue from Contracts with Customers. Such an IPSAS will address Category C transactions that:

- involve the delivery of promised goods or services to customers as defined in IFRS 15; and
- arise from a contract (or equivalent binding arrangement) with a customer which establishes performance obligations.

Do you agree with the IPSASB's Preliminary View 1? If not, please give your reasons

Yes

Preliminary view 2 (following paragraph 3.9)

Because Category A revenue transactions do not contain any performance obligations or stipulations, the IPSASB considers that these transactions will need to be addressed in an updated IPSAS 23.

Do you agree with the IPSASB's Preliminary View 2? If not, please give your reasons.

Yes

Specific matter for comment 1 (following paragraph 3.10)

Please provide details of the issues that you have encountered in applying IPSAS 23, together with an indication of the additional guidance you believe is needed in an updated IPSAS 23for:

- a) Social contributions; and/or
- b) Taxes with long collection periods.

If you believe that there are further areas where the IPSASB should consider providing additional guidance in an updated IPSAS23, please identify these and provide details of the issues that you have encountered, together with an indication of the additional guidance you believe is needed.

No comment. There are no revenue streams of this type received or applied by Whanganui District Health Board.

Preliminary view 3 (following paragraph 4.64)

The IPSASB considers that Category B transactions should be accounted for using the Public Sector Performance Obligation Approach. Do you agree with the IPSASB's Preliminary View 3? If not, please give your reasons.

The Whanganui District Health Board does not agree with the use of the Public Sector Performance Obligation Approach.

The Whanganui District Health Board believes that there is a danger that the Performance Obligation Approach may restrict development of an outcome based approach to social sector service delivery and difficulties may arise in determining the level of obligation completed.

The Whanganui District Health Board believes that Approach 1 – Option (e) combined with Approach 1 – Option (a) is the preferable solution.

The social sector is increasingly moving towards an outcome based approach to measuring the success of funding decisions and determining value for money. To reflect this change, social sector agreements are increasingly moving towards expressing obligations in terms of outcome improvement. However, outcomes in the social sector are impacted by a wide range of social sector services that are often provided by an equally wide range of entities, creating difficulty in attributing achievement of obligations under funding agreements.

Further to the challenges created through an outcome based approach to funding, traditional obligations under funding arrangements are often required to be expressed in broad terms to allow service providers the flexibility to respond to service user needs. Service provision may neither be linear, nor reflective of the resource requirements of the service provider, nor reflective of the outputs a service provider in delivering the service. A simple example could be two individuals requiring social work input. One individual may require consistent help of a social worker for an extended period of time whilst the other may require a short intervention, to achieve the same outcome for both.

The Whanganui District Health Board believes that the Performance Obligation Approach will encourage inclusion of obligation measures within funding agreements, which may not be consistent with either the outcomes sought through the funding agreement or reflect service delivery, in an attempt to readily establish the extent of the obligations completed.

Whanganui District Health Board believes Approach 1 – Option (e) combined with Approach 1 – Option (a) provides an entity with surety around revenue recognition flows in an uncertain measurement environment through the use of time as a standard measure, whilst providing transparency of future revenue to be received by disclosure in net assets. The approach will also be less inclined to create artificial performance obligation measures, particularly widget counting, that may be counter to an outcomes based service delivery focus.

Specific matter for comment 2 (following paragraph 4.64)

The IPSASB has proposed broadening the requirements in the IFRS15 five-step approach to facilitate applying a performance obligation approach to Category B transactions for the public sector. These five steps are as follows:

Step 1 – Identify the binding arrangement (paragraphs 4.29-4.35);

Step 2 – Identify the performance obligation (paragraphs 4.36-4.46);

Step 3 – Determine the consideration (paragraphs 4.47 – 4.50);

Step 4 – Allocate the consideration (paragraphs 4.51 – 4.54); and

Step 5 – Recognise revenue (paragraphs 4.55 – 4.58).

Do you agree with the proposals on how each of the IFRS15 five-steps could be broadened? If not, please explain your reasons.

Yes, but the Whanganui District Health Board does not prefer this approach.

Specific matter for comment 3 (following paragraph 4.64)

If the IPSASB were to implement Approach 1 and update IPSAS23 for Category B transactions, which option do you favour for modifying IPSAS23 for transactions with time requirements (but no other stipulations):

Option(b) – Require enhanced display/disclosure;

Option(c) – Classify time requirements as a condition;

Option(d) – Classify transfers with time requirements as other obligations; or

Option(e) -Recognise transfers with time requirements in net assets/equity and recycle through the statement of financial performance.

Please explain your reasons.

The Whanganui District Health Board favours Option (e) – refer to Preliminary view 3.

Option (b) - The public sector funding arrangements are often based on a year-by-year basis where funding received but not utilised in the current period becomes no longer available if it is unable to be recognised as a future obligation. Option (b) would not resolve this within the Statement of Financial Position.

Option (c) – The Whanganui District Health Board believes this option would create too many exceptions to the current reporting framework.

Option (d) – The Whanganui District Health Board believes this option has merit, however, believes Option (e) provides greater transparency.

Specific matter for comment 4 (following paragraph 4.64)

Do you consider that the option that you have identified in SMC 3 should be used in combination with Approach 1 Option (a) – Provide additional guidance on making the exchange/non-exchange distinction?

Yes / No

Please explain your reasons.

Yes.

The exchange/non-exchange distinction is a complicated area. The public sector has a wide variety of funding mechanisms and increased guidance would assist to increase consistency across the sector.

Preliminary view 4 (following paragraph 5.5)

The IPSASB considers that accounting for capital grants should be explicitly addressed within IPSAS. Do you agree with the IPSASB's Preliminary View 4? If not, please give your reasons.

Yes, worth considering.

Specific matter for comment 5 (following paragraph 5.5)

(a) Has the IPSASB identified the main issues with capital grants?

If you think that there are other issues with capital grants, please identify them.

(b) Do you have any proposals for accounting for capital grants that the IPSASB should consider?

Please explain your issues and proposals.

No comment

Specific matter for comment 6 (following paragraph 5.9)

Do you consider that the IPSASB should:

- (a) Retain the existing requirements for services in-kind, which permit, but do not require recognition of services in-kind; or
- (b) Modify requirements to require services in-kind that meet the definition of an asset to be recognised in the financial statements provided that they can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information; or
- (c) An alternative approach.

Please explain your reasons. If you favour an alternative approach please identify that approach and explain it.

The Whanganui District Health Board believes should choose option (b).

In some public sector and not-for profit entities, services in kind can make up a significant portion of their operating activity. Not measuring this could considerably understate the size of the organisation's operations and its significance to the economy for all stakeholders and decision makers. The Whanganui District Health Board suggests a differential reporting approach to this to ensure the cost of measurement for an organisation does not outweigh the benefit.

Preliminary view 5 (following paragraph 6.37)

The IPSASB is of the view that non-exchange transactions related to universally accessible services and collective services impose no performance obligations on the resource recipient. These non-exchange transactions should therefore be accounted for under The Extended Obligating Event Approach.

Do you agree with the IPSASB's Preliminary View 5? If not, please give your reasons.

Yes.

Preliminary view 6 (following paragraph 6.39)

The IPSASB is of the view that, because there is no obligating event related to non-exchange transactions for universally accessible services and collective services, resources applied for these types of non-exchange transactions should be expensed as services are delivered.

Do you agree with the IPSASB's Preliminary View 6? If not, please give your reasons.

Yes.

Preliminary view 7 (following paragraph 6.42)

The IPSASB is of the view that where grants, contributions and other transfers contain either performance obligations or stipulations they should be accounted for using the PSPOA which is the counterpart to the IPSASB's preferred approach for revenue.

Do you agree with the IPSASB's Preliminary View 7? If not, please give your reasons.

Yes.

Preliminary view 8 (following paragraph 7.18)

The Board considers that at initial recognition, non-contractual receivables should be measured at face value (legislated amount) of the transaction(s) with any amount expected to be uncollectible identified as an impairment. Do you agree with the IPSASB's Preliminary View 8?

Yes.

Preliminary view 9 (following paragraph 7.34)

The IPSASB considers that subsequent measurement of non-contractual receivables should use the fair value approach.

Do you agree with the IPSASB's Preliminary View 9? If not, please give your reasons.

Yes.

Specific matter for comment 7 (following paragraph 7.46)

For subsequent measurement of non-contractual payables do you support:

- (a) Cost of Fulfilment Approach;
- (b) Amortised Cost Approach;
- (c) Hybrid Approach; or
- (d) IPSAS19 requirements?

Please explain your reasons.

No comment.