THE INTERNATIONALISATION OF FINANCIAL REPORTING AND ASSURANCE

BALANCING COMPARABILITY AND COST

New Zealand has successfully held its own on the international sports field since what seems like the beginning of time. How do our New Zealand companies compete in the international business arena? Are we providing transparent, understandable financial information to potential investors and other stakeholders? And are we comparing apples with oranges?

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IN THIS ARTICLE WE OUTLINE the current reporting and assurance requirements for New Zealand entities. We then consider how these 'stack up' with those adopted by our counterparts and consider whether this allows us to compare our financial performance with our competitors.

For our **large For-Profit entities**, financial statements are prepared in accordance with New Zealand International Financial Reporting Standards (IFRS) and assured ("audited") in accordance with international standards of auditing. IFRS has been adopted as the financial reporting standard of choice across the world so comparing the business performance of these entities is pretty straight-forward.

The New Zealand Accounting Standards Board (NZASB) adopts IFRS unless there is a "compelling reason" to change the standard to be a better fit for the New Zealand regulatory environment. The "compelling reason" test was established to ensure the standards we use are relevant and to foster confidence in New Zealand financial reporting on the international scale.

However, for an estimated 97% of our For-Profit entities, the **Small to Medium Entities** (SMEs), (commonly referred to as the backbone of our economy) preparation of financial reports in accordance with IFRS is not required. Chartered Accountants ANZ have developed an optional special purpose reporting framework that can be used to prepare financial statements for SMEs. However, as the use of this framework is optional, and the framework is not as prescriptive as IFRS, comparability between SMEs can be difficult, both within New Zealand and throughout the world.

Large public sector entities in New Zealand apply International Public Sector Accounting Standards (IPSAS) when preparing their financial reports. However, take-up of these standards is relatively low, and while the New Zealand public sector uses these standards, our next-door neighbours, Australia, do not. So, at the moment, we can only compare our public sector performance with the public sector in Canada, South Africa and a handful of other countries.

For **Not-For-Profit (NFP) entities**, international financial reporting standards have not yet been developed. Using our "number 8 wire" mentality, New Zealand has led the way in developing NFP standards and recently introduced a set of domestic financial reporting standards for our 30,000 registered charities. So, for these entities, you can compare your charity's performance against other charities within New Zealand – not yet with other charities across the world. Comparability is enhanced for smaller charities (those in Tier 3 and 4) where performance reporting is required in addition to the customary financial statements. This means that you can better understand WHAT these entities are doing, and a little bit about HOW and WHY as well as how much it costs. Performance reporting is required for larger registered charities (those in Tier 1 and 2) from 2021. For NFPs performance information is arguably the most relevant information stakeholders want to see to compare entities against each other, and to determine which ones they wish to fund or become involved with in some way. International comparability does not seem to be such a big driver for NFPs.

This may leave you wondering - what is the benefit of reporting under an international framework? It's 2018, and global trade and enterprise underpins our economy – from investors to customers, or even to sporting conquests, New Zealand business has both a national and international audience. IFRS is a common language that enables comparability internationally and provides a framework that fosters well informed strategic and investment decisions.

Are our SMEs being left behind?

The good news is that recent changes to the optional special purpose framework include an option to 'opt up' to relevant IFRS. If you are an SME with complex financial arrangements or sizeable investment properties, you can adopt the relevant IFRS and provide more comparable information to your stakeholders. The other good news is that the optional special purpose framework itself is based on standards developed by the IFRS Foundation, so may be more widely used throughout the world.

For financial reporting, an entity's size is used to establish which standards you need to apply when preparing your financial reports. Size is determined based on assets and revenue for the previous two reporting periods, measured based on IFRS. So, if you are close to 'large', it is important to consider whether you have measured your assets and revenue appropriately and, as such, whether you are reporting under the correct framework. You may also wish to consider whether you should voluntarily adopt IFRS. You may find that the benefits of greater comparability and the ability to communicate complex accounting issues to your stakeholders exceed the compliance costs involved in adopting these standards. Perhaps this will give you access to a greater pool of finance or enhance your businesses credibility on the world stage.

If you are unsure of which reporting framework best meets your business and stakeholders' needs and your legal requirements, come and have a chat with one of the team at Staples Rodway. We can't, however, promise to improve your sporting performance... although never say never, we would certainly try.