

Audit Adviser

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Grant Thornton ranks No. 1

In the Public Accounting Report's annual audit rankings Grant Thornton is named as the No. 1 ranked audit firm in the US.

The rankings were based on measuring audit wins and losses by the major global accounting networks in the United States throughout the year. Five audit

engagement wins for companies each with \$US1 billion annual revenue and 24 successful competitive pitches against Big Four firms gave Grant Thornton the top spot.

The good news for our New Zealand clients is that we follow the same practices as those of Grant Thornton in the United States and the rest of the world, except where we tailor our methodology to reflect New Zealand's legal and reporting requirements.

Over the last year in New Zealand Grant Thornton has been asked to tender for more of the larger audits, normally the prerogative of the 'Big 4'. Increasingly we are finding that more directors are weighing up their audit needs against the cost of those services while still having full confidence in the quality of the delivery. Our ambitions are not to be the biggest audit firm in the country but to be in a category of one in providing the only viable alternative to the Big 4.

This U.S. award also reinforces the fact that in the United Kingdom Grant Thornton is the No. 1 audit firm for companies listed on the AIM (the

London Stock Exchange's international market for smaller growing companies) with over 200 of these companies on the firm's books – more than any other audit firm. What's more, the latest quarterly figures from Hemscott of the UK revealed that Grant Thornton, with a total of 286 listed audit clients is now the fourth largest audit provider in the UK.

With our internationally proven audit methodology, our aim is to have more companies on our books of a similar standing with those of Grant Thornton in the rest of the world.



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At the Crossroads: Responding appropriately to NZ's standard setting needs

In 1972 the Labour Party swept into power on the back of its campaign slogan "It's time for a change." It's not that the Government of the day was dysfunctional during its term in power, more that things weren't working as well as they could.

Thirty-seven years on, the same slogan aptly describes what many believe needs to happen at the Accounting Standards Review Board (ASRB). What has served us well since the early 1990s might no longer be appropriate, given the country's financial reporting needs. To its credit, the ASRB recently called for comment on its efficiency and effectiveness, and the Auditor General responded last week with an 88 page assessment of what he thinks should happen.

The foundations of the ASRB were based on having one set of standards for all New Zealand entities, stemming from a sector-neutral conceptual framework. It was considered at the time that having a single set of standards was working well for entities in all sectors of the economy.

However, since 1993 complexity has been progressively introduced into the process of developing standards for New Zealand to meet an increasing set of needs. The most notable change was in 2001 when the need to recognize International Financial Reporting Standards (IFRS) became apparent if the financial statements of large New Zealand entities were to have credibility in global capital markets. New Zealand's

innovative response (recognising the benefit of having a single set of financial reporting standards) was creating the notion of a "public benefit entity" to recognise that the profit and cash flow oriented focus of IFRS was not suitable for all entities.

An increasing number of constituents from the private sector are saying they no longer understand the need for all the changes being made to our single set of standards.

Contrast this with the complaints now coming from many public and not-for-profit entities unable to understand the reasons for the lack of change.

Using the analogy of a row boat, when the ASRB was first established both oars (private and public) were pulling with the same force. Today, this has got out of alignment with the private sector pulling much more vigorously – end result, a boat starting to go round in circles.

There are two options. The first is to continue with the status quo and a single set of standards and face the risk of accelerating frustration and dissatisfaction. The second is to completely re-engineer the way standards are made and delivered – effectively do the opposite and issue standards that are tailor-made to satisfy the reporting needs of entities in the profit oriented, public sector and not-for-profit sectors using terminology and definitions appropriate for each sector.

We do not believe in the status quo, and while the second option is by far the more difficult and expensive, it is the only way forward for New Zealand.

So who should do the work and who pays for it?

Over the years New Zealand's standard setters have achieved a

remarkable amount for a minimal level of direct investment from both Government and the New Zealand Institute of Chartered Accountants. This was largely because members of NZICA's Financial Reporting Standards Board and its subcommittees freely donated thousands of hours of time to produce the single set of high quality standards the country has been using.

However, in 2009, the circumstances the ASRB take cognizance of are quite different. Presently an "avalanche of standards" are being produced offshore by the International Accounting Standards Board and the International Public Sector Accounting Standards Board which means that there is virtually no headroom for the ASRB or the FRSB to attend and respond to New Zealand specific financial reporting matters, which, in our view, is a great shame.

Our candid view is that standard setting is now too important to be left to part time appointments and individuals from organisations who have the financial resources to absorb the amount of time that is contributed. The Government and accounting profession both need to invest more if the desired goal of a higher standard of financial reporting and accountability by entities in the public, profit and not-for-profit sectors in New Zealand is wanted.

It's time for a change. Hard decisions will need to be made to ensure that the level of investment in New Zealand standard setting is appropriate and that the mechanisms used by New Zealand entities for reporting financial positions, financial performance, efficiency and effectiveness fairly reflect what is happening.

Upcoming Seminar: Evaluating New Zealand's financial reporting landscape

Join the Grant Thornton team to find out more about:

- Significant projects the IASB is currently working on
- Whether New Zealand financial reporting requirements are 'fit for purpose'
- Important changes that come into effect in 2009; and
- Our IFRS Top 20 Tracker
- A quick snap-shot of 'What's hot' with the IRD

Auckland, 30 July 2009

Wellington, 11 August 2009

Christchurch, 26 August 2009

Seats are limited so to join us, call your local office to register your interest.

Navigating your business through New Zealand's financial reporting and IFRS requirements can be complicated. Significant changes are afoot and likely to affect all businesses no matter what their current reporting and filing obligations are.



Not-for-profit survey and report

Once again the Grant Thornton 'Not-for-profit' sector survey is on its way out to the industry. Designed to build on the findings from the 2003, 2005 and 2007 surveys the final report due out in October 2009 will highlight the trends in the New Zealand Not-for-Profit sector. If you would like to receive a copy of the final report please email bkennerley@gtwn.co.nz

Visit our new web section on IFRS www.grantthornton.co.nz

We've created a new section on our website. It deals with IFRS, the issues and how Grant Thornton can assist your business.

Check out the site today for detailed reports and findings including:

- IFRS quarterly newsletter
- IFRS top 20 Tracker
- Examples of financial statements
- IFRS to US GAAP comparison
- Financial reporting requirements for Australian entities.

Simplify or be damned: Australian businesses report in on IFRS

As companies and advisors gear up for another reporting season, new national research conducted by Grant Thornton in Australia shows that feelings are still running strong on (IFRS).

The IFRS survey undertaken by Grant Thornton Australia shows that four in five respondents (78%), including directors, audit chairs and professional advisors, believe that the current standards are far too complex and significant simplification is necessary. Although 80% of respondents are now broadly supportive of the historic decision to adopt IFRS, the report profiles possible areas for improvement, and captures the extreme emotions provoked by the four-year old standards.

This is the first real quantified study of Australian market attitudes to IFRS, and its message is clear: “reform and simplify.”

Other findings include:

- Ongoing debate around financial instruments accounting standards, with 74% of those surveyed stating that unrealised gains and losses arising from the use of mark to market values should be clearly identified, to ensure that core trading results are not masked by market fluctuations.

- This fits in with a call to include an underlying earnings result that strips out volatile IFRS numbers to disclose traditional core trading earnings. Fifty two per cent supported this move.
- Significant support for the re-introduction of a ‘true and fair view’ override in Australia, to allow the inclusion of relevant background financial information which would otherwise be lost through the IFRS framework. In the absence of any other significant reform across the system, three quarters of respondents (72%) favoured a return of the override, demonstrating their frustration with the current complexities of IFRS.
- Mixed views on the impact that the mark to market model had on the global financial crisis and the Australian economy in general. Almost half of respondents (43%) believe that the IFRS mark-to-market model has had a negative impact on the economy, and 22% went so far as to suggest it caused the global financial crisis itself.

Accounting rules have become a fundamental driver of market operations, and the jury’s still out on the inter-relationship between IFRS and the economy as a whole. However, in line with the current reviews underway, the survey indicates that there are some immediate opportunities to improve current frameworks, particularly adding in flexibility to allow for disclosure of additional information.



If you require further information on any of these topics or would like details on other accounting matters, contact your local Grant Thornton firm:

Auckland

Level 4, Grant Thornton House
152 Fanshawe Street,
Auckland 1140
T 09 308 2570
F 09 309 4892
E info@gtak.co.nz

Chris Dixon

E cdixon@gtak.co.nz

Alec Flood

E aflood@gtak.co.nz

Mark Hucklesby

E mhucklesby@gtak.co.nz

Wellington

Level 13, AXA Centre
80 The Terrace,
Wellington 6143
T 04 474 8500
F 04 474 8509
E info@gtwn.co.nz

Brent Kennerley

E bkennerley@gtwn.co.nz

Kerry Price

E kprice@gtwn.co.nz

Christchurch

Level 9,
Anthony Harper Building
47 Cathedral Square,
Christchurch 8140
T 03 379 9580
F 03 366 3720
E info@gtch.co.nz

Graeme McGlenn

E gmcglenn@gtch.co.nz

www.grantthornton.co.nz

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