

29 January 2010

Review of the Financial Reporting Framework
Competition, Trade and Investment Branch
Ministry of Economic Development
P O Box 1473
WELLINGTON
Via email: financialreporting@med.govt.nz

General Manager
Accounting Standards Review Board
P O Box 12197
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Via email: admin@asrb.co.nz

Dear Sirs

Thank you for the opportunity to provide comment on the Ministry of Economic Development's ("MED's") Discussion Document *The Statutory Framework for Financial Reporting* and the Accounting Standards Review Board's ("ASRB's") Discussion Document *Proposed Application of Accounting and Assurance Standards under the Proposed New Statutory Framework for Financial Reporting* (together "the Discussion Documents").

Over the last three months our firms have consulted extensively on the significant proposals contained in the Discussion Documents. The purpose of this letter is to outline the key matters of principle in relation to the Discussion Documents that our firms agree on. Thus, this letter provides background information on our firms and our comments on the proposed financial reporting framework, the proposed External Reporting Board ("XRB") and other matters.

Individual, more detailed, firm submissions on the Discussion Documents have been provided under separate cover.

OUR COLLECTIVE PRESENCE IN NEW ZEALAND

The table below summarises the size of each of our firms:

Name	Number of offices	Number of partners	Number of staff
BDO	14	68	650
Grant Thornton	3	29	270
Hayes Knight	3	14	125
Staples Rodway	6	49	425
WHK	19	63	580
Total	45	223	2,050

Our firms offer a full range of accountancy services to a broad range of clients (including listed companies, issuers and large private companies). We believe that the combined reach of our firms in relation to the matters covered in the Discussion Documents is significant, particularly given the broad range of our clients.

COMMENTS ON THE FINANCIAL REPORTING FRAMEWORK

1. In principle we agree that the tiered approach to financial reporting is appropriate.
2. We agree with the overall principle of using the criteria of economic significance, public accountability and separation of ownership and management as the basis for determining which tier an individual entity would fall within.
3. When determining economic significance, we consider that the size criteria are currently appropriate. However, we note that mechanisms will need to be in place to ensure that they can be updated on a timely basis.
4. In principle we agree that, given the differences in nature of work undertaken and transactions entered into, it is appropriate to have different financial reporting frameworks for public and private sector organisations. However, we note that the quality of financial reporting in the New Zealand public sector has been consistently high, in no small measure due to the application of sector neutral standards, and we are not yet convinced that International Public Sector Accounting Standards (“IPSAS”) have proven themselves as sufficiently comprehensive and rigorous to ensure the same quality of financial reporting. That said, we note that IPSAS are based on International Financial Reporting Standards (“IFRS”), which we consider indicates that IPSAS are likely to be an appropriate financial reporting framework for New Zealand’s public sector in the future.
5. We agree that IFRS provide the appropriate structure for reporting by private sector organisations.
6. We consider that, if companies are newly required to file their financial statements due to reaching specified size thresholds, it is likely that some will structure their affairs to circumvent this requirement.

COMMENTS ON THE PROPOSED XRB

1. We agree that the proposed structure and functions of the proposed XRB are appropriate. However, we note that, to be effective, adequate resourcing will be required.
2. Given the increased reliance on fair value measurement, and consequently valuations, in financial statements, we consider that the quality of financial reporting would be improved if the XRB’s role included consultation with relevant professional valuation and actuarial bodies.
3. The firms were not unanimous on whether giving auditing standards the force of law would improve audit quality. However, we did agree that giving auditing standards the force of law may result in a “tick box” approach to auditing, which we consider would decrease audit quality. That notwithstanding, if auditing standards are given the force of law to align with Australia, we consider that auditor liability concessions must be included in the legislation, to recognise the risks associated with undertaking audits.

4. We consider that the process of auditor registration should be undertaken by an independent body such as the XRB, to ensure both the reality and perception of effective oversight.

OTHER COMMENTS

1. It is currently very difficult to comment on the relative advantages and disadvantages of differential reporting and IFRS for SMEs, as considerable uncertainties surround both. However we note that the decision reached should be based on the quality of the financial reporting framework and the implications for entities trading in other jurisdictions. Our individual submissions address this matter in greater depth.
2. Given the number of references in tax legislation to generally accepted accounting practice ("GAAP"), we are concerned that failure to provide an appropriate financial reporting framework for for-profit entities that are not in Tier 1 or Tier 2 may result in financial reporting practice for such entities diverging in a manner that leads to downstream taxation implications. We further note that such a lack of guidance may lead to Inland Revenue becoming the default setter of GAAP for such entities, which we think would be unfortunate. We are also concerned that diverging financial reporting practice may lead to increased compliance costs for entities, particularly for those entities that, in the future, meet the applicable thresholds and are required to move into Tier 2.
3. We question whether the use of review engagements would achieve the desired effect of reducing compliance costs, as in many instances the cost of a review is unlikely to be significantly lower than the cost of an audit, despite possible client expectations to the contrary. We note that this expectations gap may require careful management. We also question whether review engagements provide sufficient assurance to adequately protect the public interest, and note that users of financial statements may misunderstand the level of assurance provided by a review engagement.
4. We consider that there would be substantial benefits in the Financial Reporting Act 1993 becoming an umbrella piece of legislation that captures the financial reporting obligations of all bodies corporate (including trading trusts). We note that, with the exception of brief reference to partnerships, the Discussion Documents do not appear to indicate whether for-profit entities other than companies are included in the proposals that they contain, but we believe that there would be considerable merit in including them.
5. If the proposed Single Economic Market is achieved, in the longer term we consider that it may be appropriate to have one trans-Tasman setter of accounting and auditing standards.
6. To align with Australia, we consider it appropriate to remove the requirement for groups preparing consolidated financial statements to also prepare parent entity financial statements.
7. We consider that the proposed reduction of time between balance date and filing date, coupled with the 31 March tax balance date, will create operational problems for accounting firms that are likely to result in increased compliance costs for clients. We consequently consider that all reporting entities should be able to select their own balance date.

Each of our individual submissions includes an offer to meet with the MED and the ASRB to discuss our comments. If it were considered more appropriate to do so, we would be prepared for our firms to be jointly involved in such meetings.

If you would like to discuss any matter raised in this letter, please contact any of the undersigned.

Yours faithfully



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