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Dear Tony

### **Framework: PBE Standards Mixed Groups**

Thank you for the opportunity to provide some feedback to the External Reporting Board (XRB) on its invitation to comment (ITC) document addressing the content of PBE Standards for Mixed Groups.

As members of the XRB will be aware, Grant Thornton New Zealand has extensive involvement with public sector entities across the country and also with the not-for-profit (NFP) entities throughout New Zealand. We therefore consider ourselves well placed to assess the impact and usefulness of what has been outlined in the ITC.

We are pleased that the XRB saw fit to address this financial reporting matter now because we believe as the independent Crown entity specifically charged with creating accounting and auditing standards for New Zealand, it is the entity best placed to provide direction on this challenging accounting topic.

### **Opening remarks**

Our responses to the XRB questions raised in the ITC are attached in Appendix 1.

Overall we are happy with the approach that the XRB has taken so far in the context of implementing its multi-standards approach.

The issue of divergence in the recognition, measurement, presentation and disclosure requirements in IFRS and IPSAS in our view is going to become increasingly complex to monitor and assess so the principles and processes the XRB establishes now are, in our opinion, going to have a long standing impact. We believe it is very important to get these right from the outset.

In our opinion, one of the shortfalls in the Explanatory Guide as presented is the reference in Table 1 to “substantive differences”. What is meant by a “substantive difference”? Is it “substantive” because of the perceived compliance costs associated with the for-profit entity having to gather additional data to fully comply with the PBE Standards? Can it only be a

“substantive difference” if it involves, recognition and measurement differences; or can “substantive differences” arise in presentation and disclosure as well?

To avoid any misunderstanding in the future, we would like the XRB to define what it considers a “substantive difference” is in terms of not recognition and measurement, but also in disclosure and presentation as well.

We would also like the XRB to list the differences under one of the following four headings: recognition, measurement, presentation or disclosure. From the Explanatory Guide one could infer that differences only relate to recognition and measurement – our view is that this is not the case given the considerable effort that the IASB has put into defining, and refining, what should now appear in the statement of other comprehensive income.

**Is this much ado about very little, or should the XRB be very careful in monitoring and explaining differences to its constituency?**

Members of the XRB are no doubt aware of a paper<sup>1</sup> called “Much ado about very little: Differences between IFRS and IPSAS” that was presented last year at a New Zealand Society of Local Government Managers (SOLGM) conference. It summarises the following categories of differences between IFRS and IPSAS:

<b>Difference Type</b>	<b>Number of Differences</b>
Scope of standard	26
Recognition (often with measurement implications)	52
Measurement only	23
Presentation	26
Disclosure	49
Other	6
<b>Total</b>	<b>182</b>

The analysis above was based on research commissioned by the XRB’s predecessor, the Accounting Standards Review Board and our assessment is that this paper provides a useful summary of the main differences. However, we believe the ASRB’s analysis now in need of substantial revision given the significant number of new, revised and amended standards issued by the IASB over the last three years (ie since 1 January 2010). Our sense is that there are now significantly more differences in place, and many of the changes that have come, or are about to come into effect are substantive.

Our wish is that while the XRB may signal what it believes to be substantive differences between the two bases of accounting, namely IPSAS and IFRS, it should always maintain a comprehensive reference list of all differences. Having this complete list will then allow the preparers of PBE financial statements and the auditors of PBE entities to decide if the differences they are dealing with are substantive or not. Given the great diversity of entities that exist within the PBE sector, we see danger in assuming that certain differences between the two bases of accounting will always be substantive and others will not.

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<sup>1</sup> For details of the full paper see:

[http://www.solgm.org.nz/Folder?Action=View%20File&Folder\\_id=130&File=IPSAS%20vs%20IFRS.pdf](http://www.solgm.org.nz/Folder?Action=View%20File&Folder_id=130&File=IPSAS%20vs%20IFRS.pdf)

**The XRB should err on providing more rather than less**

Our suggestion is that this comprehensive, and categorised, list of differences be issued annually by the XRB and it should dovetail directly into the IASB's "blue book" of accounting standards that is published each year.

Recognising when the blue book is published and made available each year (ie January) and when most PBE's report (31 March or 30 June), we would encourage the XRB to use its best endeavours to provide its annual list of differences no later than 31 March every year.

While not wanting to make the XRB's task of tracking differences too burdensome, citing the specific paragraphs that create the substantive differences between IPSAS and IFRS would be most useful to accountants who work in both the for-profit and PBE sectors of the economy.

**Treatment of the appendix in IPSAS 6: mandatory or non-mandatory?**

While we can see the advantages of having an appendix to PBE IPSAS 6 *Consolidated and Separate Financial Statements* that is not mandatory, our view is that every PBE must consider the financial reporting differences that are present in the consolidated group. In many instances the differences may not be "substantive", but there has to be active consideration of them and we believe the best way of achieving this is to make them mandatory.

**Closing comment**

Finally, Grant Thornton would like to thank the XRB for this opportunity to comment and would welcome the opportunity to meet with representatives from the XRB to discuss these matters further. My contact information is below.

Yours sincerely



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**APPENDIX 1**
**Submission on Framework: PBE Standards for Mixed Groups**

Questions for Respondents	
Q1	<p>In the context of a multi-standards framework with standards for PBEs based on IPSAS and standards for for-profit entities based on IFRS, do you agree with the proposed NZASB strategy to respond to emerging differences between PBE Standards and NZ IFRS, as set out in the draft Explanatory Guide? If not, what alternative strategy would you recommend?</p> <p>Yes, as noted in our cover letter, in principle we strongly support the NZASB's strategy to respond and identify emerging differences between the two bases of accounting.</p>
Q2	<p>Are there any other actions to respond to emerging differences that the NZASB should consider, in addition to those discussed in the draft Explanatory Guide?</p> <p>We believe it is important to have an annual update of these differences, and we believe that the timing of this work should coincide with the publication of the IASB's "blue book" of financial reporting standards. There should be technical references cited to both IFRS and IPSAS so that if the preparers of the financial statements or the auditor wants to investigate these differences more fully, they are readily able to do this.</p>
Q3	<p>In relation to the proposed Appendix to [ED] PBE IPSAS 6 <i>Consolidated and Separate Financial Statements</i>:</p> <p>(a) Do you agree that the NZASB should provide guidance, by way of an appendix to the proposed PBE IPSAS 6, as to the application of the requirement to use uniform accounting policies?</p> <p>(b) If you agree that guidance should be provided, do you consider that the guidance should be mandatory or non-mandatory?</p> <p>(c) If you agree that guidance should be provided, do you agree with the contents of the draft appendix?</p> <p>Our response to each question is noted below:</p> <p>(a) Yes, we believe having an appendix as proposed would be extremely useful. In our cover letter we have made some suggestions as to the look and feel of this appendix that we would like to see.</p> <p>(b) Our view is that the guidance should be considered mandatory. If it addresses matters that are not material, then there is a separate mechanism (ie materiality) to not act further on them. However, that accounting decision must be justified and auditable.</p> <p>(c) We do not believe the guidance that has been provided in the ITC as currently drafted is sufficient. We would like to see every difference identified under one of four different category headings (ie recognition, measurement, presentation and disclosure).</p>