

STAFF REPORT

TO: Chair and Members, Corporate Services Committee

FROM: Financial Accountant

FILE: AA501

DATE: 18 March 2010

SUBJECT: **Accounting Standards – RFN10-04-08**

Purpose

The purpose of this report is to inform the committee of any relevant proposed changes to accounting standards or new proposed accounting standards that may be of interest.

Background

The Local Government Act 2002 requires the Council to comply with Generally Accepted Accounting Practice (GAAP) in preparing the Annual Report. Currently a single set of standards applies to all sectors in New Zealand (NZ IFRS).

You may be aware that the former Auditor-General Kevin Brady submitted a report to Parliament addressing his dissatisfaction with NZ IFRS and how it was difficult to apply in the public sector, produced financial statements of questionable relevance, and introduced a new and unnecessary level of complexity. On 30 September 2009, the Ministry of Economic Development released a document which proposes sector specific standards which would mean the Council would no longer be required to report under NZ IFRS. Instead the Council would be required to apply a set of standards specific to Public Benefit Entities (PBEs). These are proposed to either be International Public Sector Accounting Standards (IPSAS) which are developed by the International Public Sector Accounting Standards Board (IPSASB) or a New Zealand set of standards developed separately but using IPSAS as a base.

I recently attended a seminar on “Is it time for IPSAS?”. Current consensus is that NZ IFRS is liveable at the moment. However, the problem is that what is being proposed in the future. IFRS has a very narrow capital markets focus which could cause it to become meaningless and unworkable for the public sector. The new Auditor-General is also of the conclusion that we need to go in a different direction to NZ IFRS.

The IPSASB is a relatively new entity and until recently has been under-resourced. IPSAS is a candidate as a set of standards for the public sector. However, standards are still being developed and they are still drafting their conceptual framework for the standards. About 30 countries around the world have adopted IPSAS.

In our opinion there are some issues with the appropriateness of NZ IFRS for PBEs, especially around disclosure requirements. However, a single set of standards for all sectors is the most appropriate approach to setting financial reporting standards in New Zealand at present. A single set of standards also allows individuals to work across all sectors which will become increasingly difficult if we move to sector-specific standards. The provisional view from most accountants that attended the “Is it time for IPSAS?” seminar, is that IPSAs could be a viable future alternative for PBEs, but not until they are sufficiently creditable and robust enough to be adopted in confidence. We are also well aware of the time and costs of changing accounting standards following our transition to NZ IFRS.

New Zealand has been and remains an international leader in public sector accounting. There will be further developments happening in the area with IPSAS gaining more attention and analysis. The committee will be kept informed of any developments.

Recommendation

That the Accounting Standards report, RFN10-04-08, dated 18 March 2010 be received.

Bryce Grammer
Financial Accountant