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Dear Warren

Submission on Targeted Review of the New Zealand Accounting Standards Framework

Thank you for the opportunity to make a submission on the above Review. I have answered the questions below:

SMC 1: Importance of close alignment between PBE Standards and IPSAS

Q3. Moving forward, should the XRB's policy for developing PBE Standards prioritise local considerations to ensure that PBE Standards are "fit for purpose" for the New Zealand environment? Or, is maintaining close alignment with IPSAS more important? Please provide reasons for your response.

My response is driven by a reflection on the period between 2002 and 2007 when IFRS was imposed upon the public sector and public sector-specific guidance was lost (Cordery & Simpkins, 2016). At that time, and since, there has been a push to meet the needs of users of public sector (and now also charities – private sector) PBEs. The close tie to IPSAS was agreed with the longer term goal of adopting the majority of these standards in order to meet user needs (Cordery & Simpkins, 2016) and to draw on and be part of international efforts to harmonise accounting that meets those user needs. Since then, the IPSASB Conceptual Framework has been developed and many more standards promulgated which raised the attractiveness of the IPSASB suite.

The XRB states the Targeted Review has arisen due to a need to assess when it should 'get ahead of the IPSASB' by following IFRS. Such action involves standard setting effort in New Zealand that is focused on New Zealand (rather than international effort). This effort is a scarce resource wherever it is undertaken and therefore must be used wisely. Where we push domestic issues solely, we run the risk that in 'getting ahead of the IPSASB' New Zealand standards would evolve quite differently from those later developed by IPSASB. If this occurred, a clash could result in standards being changed more frequently than preparers and users would like and/or moving away from the central strategy of the XRB towards alignment with IFRS for PBE preparers and users. Therefore, I would be concerned that changing the current strategy/policy approach to attempt resolution of issues with domestically-focused standards would result in decisions that are contrary to the intent of the Framework that prioritises users' needs. This could result in not realising the full benefits of this Framework.

Therefore I believe that the 'high hurdle' for changing in the PBE Policy Approach should be maintained.

Q4. If you think close alignment between PBE Standards and IPSAS is important, for whom is this important and why?

Please see above, the reasoning behind the alignment has been fully discussed since 2009 as being important to meet users' needs across a wide range of entities in both the public and not-for-profit sectors. I do not believe that the environment has changed so radically as to suggest there is a need to change this position.

SMC 3: Do the PBE tier size criteria need to be revisited?

Q10. Are you aware of any unintended consequences of the application of the PBE tier size criteria, or any recent developments in the reporting environment, which would suggest that the PBE tier size criteria need to be revisited?

No. In respect of charity reporting, the international comparators (e.g. the levels for application of the SORP used by all UK regulators and the filing requirements in the US) have remained unchanged. Further, while I am unaware of specific percentages, anecdotal evidence suggests that a number of charities choose to use higher tiers of reporting than they are required to.

While recognising that this consultation is not about the $125,000 expenditure break between Tier 3 and 4, this was set at a high level so that current preparers were not required to change much. Research showed that a very small number of charities (7.1% of a stratified sample) were reporting using the cash basis above the $125,000 expenditure level (Cordery & Sim, 2014), therefore they were the most affected, but at this level of expenditure should be able to follow simple accrual accounting (Tier 3). Further, while other countries use revenue as a basis to define tiers/ requirements, Cordery and Sim (2014) showed that when revenues were more private (i.e. investment returns), charities were more likely to use cash reporting. This suggests a further reason (on top of revenue volatility) not to select revenue as an underlying basis to segregate reporting levels. Because investment revenue can be both volatile and private, the use of expenditure as a basis for the tiers appears to be the best way forward.

In addition, using two sets of data from different XRB projects, Cordery, Sim and van Zijl (2017) found that charities with up to $2 million in expenditure could be segmented into different types based on both their revenues and expenditures. In other words, in general, charities' reliance on certain types of revenues results in certain patterns of expenditures, suggesting that the use of expenditure as a basis for the tiers may not only reduce the dysfunction of revenue volatility, but also that users can expect regular patterns of expenditure and reporting standards to meet those.

Therefore I continue to support expenditure as the factor for segmenting the tiers and have not found evidence to suggest that the $2 million and $30 million levels are inappropriate at this stage.

Q12. Do you have any other comments on the tier size criteria for PBEs? Do you have any other comments on the ED?

No.

I trust these comments are helpful.

Yours sincerely,

Professor Carolyn Cordery,
Aston Business School

References:

Cordery, C. J., & Sim, D. (2014). Cash or accrual: What basis for small and medium-sized charities' accounting? *Third Sector Review*, *20*(2), 79–105.

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Cordery, C. J., & Simpkins, K. (2016). Financial reporting standards for the public sector: New Zealand's 21st-century experience. *Public Money & Management*, *36*(3), 209–218.