



Summary of our report

Improving financial reporting in the public sector

Since International Financial Reporting Standards came into effect in this country, we have called for changes in how the accounting standards that affect most of our public entities are set.

We were long concerned that the International Financial Reporting Standards – designed for commercial companies listed on stock exchanges – were unsuitable for much of our public sector. In 2009, we published a discussion paper, *The Auditor-General's views on setting financial reporting standards for the public sector*, to inform Parliament of our concerns.

In this report, we reflect on the concerns we raised in 2009, set out our views about how well those concerns have been addressed, and provide some insight into the future of financial reporting.

We report positive changes to accounting standards during the last seven years, which we expect to lead to improvements in financial reporting. The changes mean that we now have a tailored approach to financial reporting in the public sector and a foundation for much better reporting in future.

The positive changes include setting up an independent body to set accounting standards, the External Reporting Board (XRB), and adopting a new Accounting Standards Framework for all reporting entities.

The new Accounting Standards Framework is designed so that financial reports will better meet the needs of users. The Framework distinguishes between accounting standards for public benefit entities (PBE accounting standards) and standards for commercially focused entities.

The Framework uses tiers so that financial reporting requirements reflect the different size and nature of reporting entities. The tiered structure is likely to help smaller entities achieve a better balance between the costs and benefits of general purpose financial reporting. We encourage all public entities to make full use of financial reporting concessions that are available in the new tiered structure.

Laws have been changed to make public entities' financial reporting more useful and relevant, and to improve accountability and decision-making. Overall, we are encouraged by the changes that have taken place since 2009. These changes better position the public sector to report more meaningfully. However, public entities need to use the flexibility available



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within the new Accounting Standards Framework by focusing on users' information needs and what matters most.

The way is open for public entities to change the focus of their reporting from complying with specific accounting standard requirements to communicating better through their financial reports. During the last six years, we have strongly supported the “decluttering” of financial statements. Those who prepare financial statements need to think about and include only the information that is necessary for users' understanding.

The XRB also has an important ongoing role in helping to resolve some of the more challenging aspects of general purpose financial reporting.

We hope that this discussion paper will promote further constructive debate about the future of financial reporting in the public sector, so that reporting by public entities can continue to evolve to better meet the information needs of users.

Features of the new Accounting Standards Framework

	For-profit entities		Public benefit entities	
	Entities	Accounting standards used by these entities for general purpose financial reporting	Entities	Accounting standards used by these entities for general purpose financial reporting
Tier 1	Have public accountability or are large for-profit public entities (annual expenditure greater than \$30 million).	NZ IFRS. This is a full suite of for-profit entity accounting standards based on IFRS, with limited modifications for New Zealand's circumstances.	Have public accountability or are large entities (annual expenditure greater than \$30 million).	PBE accounting standards. This is a full suite of public benefit entity accounting standards largely based on IPSAS, modified for New Zealand's circumstances.
Tier 2	Do not have public accountability and are not large for-profit public entities (annual expenditure less than \$30 million).	NZ IFRS with fewer disclosures.	Do not have public accountability and are not large entities (annual expenditure less than \$30 million but greater than \$2 million).	PBE accounting standards with fewer disclosures.
Tier 3	-	-	Do not have public accountability, have annual expenditure less than \$2 million, and not in Tier 4.	A simple format reporting standard, on an accrual basis.
Tier 4	-	-	Small entities that are permitted by legislation to use cash accounting and have annual operating expenditure less than \$125,000.	A simple format reporting standard, on a cash basis.