IPSAS: Pros and cons for New Zealand

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Overview

Pros of IPSAS adoption
- More tailored approach for public sector and not-for-profis
- International set of standards
- Efficiencies for the NZ standard-setting process
- Could support long-term international convergence across the sectors?

Cons of IPSAS adoption
- Costs of transition
- Increased complexity and fragmentation of the NZ reporting framework
- Trans-Tasman divergence
- IPSASB governance & funding

Verdict? A personal view…
Pros of IPSAS adoption

► Sector-specific accounting standards more tailored to the needs of each sector and their stakeholders
  ► IPSASB focuses on the public sector, so not constrained by desire to minimise differences across the sectors
  ► IPSAS use public sector terminology and include application guidance for transactions common to the public sector
  ► Further application guidance could be added for not-for-profit sector, so greater attention also given to NFPs

► International set of standards
  ► Increased comparability and reduced costs for entities that report or raise funds internationally
  ► Benefits of ‘IPSAS brand’ as adoption increases internationally
Pros of IPSAS adoption (continued)

► Efficiencies for the NZ standard-setting process
  ► IPSASB has more resources and input compared with NZ process
  ► Reduced costs for NZ standard-setting process – no need to duplicate IPSASB work
  ► NZ resources could instead be used to increase contribution to IPSASB and developing NFP application guidance

► Supporting IPSAS now could help to encourage convergence of for-profit and public sector accounting at the international level in the longer-term?
Cons of IPSAS adoption

- **Costs of transition**
  - Time and resources needed even if results in little initial change

- **Increases complexity and fragmentation of the NZ financial reporting framework**
  - Differences in requirements across the sectors because of differences in timing (IPSAS will lag behind IFRS), with no offsetting benefits to users of financial statements
  - More resources needed to identify and keep track of requirements for each sector
  - Increased compliance costs for mixed groups
  - Reduced mobility of accounting professionals across sectors
  - Increased staff training and recruitment costs
Cons of IPSAS adoption (continued)

- Trans-Tasman divergence – Australia has no immediate plans to adopt IPSAS

- IPSASB governance & funding
  - IPSASB is part of IFAC
  - Appointment and oversight process
  - Increased resources needed – without impairing independence
  - Governance concerns could increase over time: increased global IPSAS adoption could lead to increased political interest in IPSASB decisions
Verdict? A personal view…

► Practical implications for New Zealand are significant – we need to be confident that there are sufficient benefits to outweigh the costs
► May not fix the problem – some concerns about IFRS are not sector-specific (e.g. standards are too complex and require too many disclosures) and would not be resolved by moving to IPSAS
► Some concerns about IPSAS (e.g. governance issues) could be resolved in time – implies we should resolve these first
► Important to work with Australia – both for trans-Tasman harmonisation and to leverage their greater resources

Verdict:
► Not yet but keep on the radar
► Work with Australia on a strategy for the future
► Consider improvements to NZ standard-setting process in the meantime
Thank you