MOORE STEPHENS MARKHAMS

AUDIT AND ASSURANCE

Audit News

Winter 2014

Serious about Success

Are you required to be audited?

You may or may not be aware that recent changes to Financial Reporting legislation and who is required to be audited has been some of the most significant we have seen in New Zealand for more than 20 years.

In previous newsletters we have reported on the new Financial Reporting Framework.

Below we detail with the recent changes in legislation, who has to be audited and the legislative reference for further reading.

Note that the Accounting Infrastructure Reform Bill, which applies to the not for profit sector, is before the select committee that will report back to Parliament after the end of May. We will let you know of any updates.

Entity	Audit required by
For Profits	
Issuers and other FMC reporting entities	Part 7 Financial Markets Conduct Act 2013
Every large company **Revenue>$30million or Assets>$60million**	Section 206-207 Companies Act 1993 But the shareholders of the company may, at a meeting of shareholders held within the opting period, opt out of compliance with section 207 in relation to the accounting period by way of a resolution approved by not less than 95 percent of the votes of those shareholders entitled to vote and voting on the question (Section 207J Companies Act 1993) and on certain other conditions.
Public entity company	Section 206-207 Companies Act 1993
Every large overseas company that carries on business in New Zealand **Revenue>$10million or Assets>$20million**	Section 206-207 Companies Act 1993
Every other company with 10 or more shareholders	Section 206-207 Companies Act 1993. Can opt out under Section 207i Companies Act 1993 with 95 percent acceptance from shareholders.
Every other company with fewer than 10 shareholders	Section 206-207 Companies Act 1993 can opt in under section 207K Companies Act 1993 if shareholders with not less than 5 percent of the voting share choose, to do so by written notice within the opting period.
Not For Profits / Public Benefit Entities	
Every charitable entity that is large **Total operating expenditure >$1million**	Section 24 Accounting Infrastructure Reform Bill
Every charitable entity that is of medium size **Total operating expenditure $500,000-<$1million**	Section 24 Accounting Infrastructure Reform Bill *These entities can either be audited or reviewed*
All other not for profits/ public benefit entities	• May be required by a separate enactment of parliament • The constitution or rules require an audit • Stakeholder initiated audit requirement, eg; funding provider • Requested by governance to add credibility to the financial statements.

If you are not sure or need assistance with determining your audit requirements, please contact your local Moore Stephens Audit office.

For our view on the 2014 Budget visit www.markhams.co.nz

Accounting standard updates

The accounting standard changes that will affect those entities for periods beginning 1 January 2013 onwards have been updated on the XRB website and some key elements are noted below.

Consolidated financial statements

The issue of NZ IFRS 10 *Consolidated Financial Statements* has replaced those parts of NZ IAS 27 (*Separate Financial Statements*) which address the requirements of preparing consolidated financial statements. NZ SIC-12 *Consolidation – Special Purpose Entities* has also been replaced in its entirety.

NZ IFRS 10 uses control as the basis of consolidation requirement, irrespective of the nature of the investee, which eliminates the risks and rewards approach taken in SIC-12.

IFRS 10 recognises the three elements of control as:

- Power over the investee; and
- Exposure, or rights, to variable returns from investment with the investee; and
- The ability to use power over the investee to affect the amount of the investor's returns.

NZ IFRS 11 *Joint Arrangements* supersedes NZ IAS 31 *Interests in Joint Ventures* and NZ SIC-13 *Jointly Controlled Entities – Non-Monetary Contributions by Ventures.* NZ IFRS 11 classifies joint arrangements as either joint operations; which combine the concepts of jointly controlled assets and jointly controlled operations, or joint ventures; which mirror the existing concept of jointly controlled entities.

The distinction between the two is based on the parties' rights and obligations under the arrangement. The existence of a separate legal vehicle is no longer the key factor.

NZ IFRS 12 *Disclosure of Interests in Other Entities* applies to entities that have an interest in subsidiaries, joint arrangements, associates or unconsolidated structured entities. This standard sets out minimum disclosure requirements to help users of financial statements evaluate the nature of and risks associated with interest in other entities, along with the effects of those interests on the financial statements.

Fair value measurement

NZ IFRS 13 has been issued to establish a framework for measuring fair value where required by other relevant standards. Fair value is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date".

Financial instruments

The mandatory effective date of NZ IFRS 9 *Financial Instruments* has been deferred to annual periods beginning on or after 1 January 2015. However, the amendment continues to permit early application. NZ IFRS 9 will replace NZ IAS 39 *Financial Instruments: Recognition and Measurement* and entities that choose to early adopt the standard for the period beginning 1 January 2013 or thereafter will need to provide modified disclosures but there will be no need to restate prior periods.

Key changes for financial asset classification and measurement introduced by the new standard include:

- Debt instruments meeting both a 'business model' test and a 'cash flow characteristics' test measured at amortised cost
- Investments in equity instruments can be designated as 'fair value through other comprehensive income' with only dividends being recognised in profit or loss
- All other instruments are measured at fair value with changes recognised in profit or loss.

In terms of financial liabilities:

- NZ IAS 39 classification categories of amortised cost and fair value through profit and loss are retained
- Changes in credit risk on liabilities measured at fair value through profit and loss is recognised in other comprehensive income, unless it creates or increases accounting mismatch, and is not recycled to profit and loss
- The meaning of credit risk is clarified to distinguish between asset-specific and performance credit risk
- The cost exemption in NZ IAS 39 for derivative liabilities to be settled by delivery of unquoted equity is eliminated.

It is important to note that NZ IFRS requires disclosure of all the updates and new standards that apply to, and materially impact the financial statements of the entity, regardless of whether they have been adopted.

The necessary disclosure should state the nature of the change in accounting policy in compliance with the relevant pronouncement, details of any transitional provisions (where applicable), and the line-by-line analysis of the effect of the change in policy on the financial statements.

The Targa – coming your way!

Just to prove that auditors have a life, here is a picture of our latest advertising 'vehicle' – an Audi RS Turbo at rest during the 2013 Targa Tour that tore flat out around the North Island on closed roads for five days. This year it will be in the South Island.

The two gentlemen pictured are Wellington Audit Partner Peter Smith (left) and his son Reuben, a mechanic with a commerce degree, a fast yellow Audi and a specialist car workshop (Powerhaus). We aim to upset preconceptions - a speedy auditor and a degreed mechanic!

For-profit entities and new legislation in effect

In November 2012, the External Reporting Board (XRB) and the New Zealand Accounting Standards Board (NZASB) issued a package of standards separating the NZ IFRS standards into those applicable for for-profit entities and public benefit entities (PBEs).

The 'for-profit package' suite of standards is in place and is being rolled out at intervals. A key standard of this being XRB A1, which establishes a tier structure and related accounting standards that will apply to each tier for profit periods beginning on or after 1 December 2012.

Briefly, entities initially default to Tier 1 and may elect into Tiers 2, 3 or 4 subject to meeting the applicable criteria of each tier. It should be noted that Tiers 3 and 4 have been designated as "temporary tiers", and will be removed for periods beginning on or after 1 April 2015. Entities in these categories that are still required to comply with GAAP, will default to Tier 2 at that time. These entities are free to adopt Tier 2 designation before then.

Those in Tier 3 and 4 who no longer need to comply with GAAP will still need to prepare special purpose financial statements. Please refer to the next article for more information.

How does this affect for-profit businesses?

The main effect of the tier structure on reporting requirements will be found by entities captured in Tier 2; which will be subject to NZ IFRS RDR (Reduced Disclosure Regime). The regime is intended to align with the equivalent standards in Australia. It comprises recognition and measurement requirements of full NZ IFRS with significantly fewer disclosures.

Entities currently applying full NZ IFRS will fall into the Tier 1 category and should not be affected.

However, there is an opportunity for eligible entities currently applying full NZ IFRS to adopt the Tier 2 structure and attain the advantage of NZ IFRS RDR reporting.

Team News

Auckland

Neville Shove has joined us and Joyce Zhou has been promoted to audit manager.

Hawke's Bay

Andy Arcus, a former small business owner, Chartered Accountant and multinational finance manager has joined the Hawke's Bay audit team

Christchurch

We are pleased to announce that Richard Ineson has been granted a full issuer audit license. This ensures the Christchurch office will continue to audit all types of issuers.

Moving away from audit, Richard sailing his Laser yacht, completed the yachting season on a winning note. ANZAC weekend saw the closing of two yacht clubs. Both clubs had 'mark foy' starts (handicap at the beginning of the race) and both saw Richard starting at the back of the fleet. At Pleasant Point yacht club, Richard came over the line in 3rd place and at Waimak yacht club managed to win the closing day trophy. The season now closes up until September.

Pauline Loach-Ponga has been touring Europe with her family but is now back in the office.

Jennifer Rapanut and Christi Naude have had an extremely busy start to the year with April offering a lighter work load. Our audit team is operating well and more than capable of handling any new audit assignments that come our way.

Wellington and Wairarapa

In April we said farewell to Christy Chui who has moved to Auckland. We wish her all the best for her future career.

We are also pleased to announce that Peter Smith has been granted a full issuer audit licence.

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New financial reporting requirements for companies

Companies with reporting periods commencing on or after 1 April 2014, who have:

- annual revenue of $30 million or less, or
- assets of $60 million or less are no longer required to prepare general purpose financial statements (eg: FRS, IFRS).

Instead, companies will now be required to prepare special purpose financial reports to minimum requirements set by Inland Revenue. Inland Revenue will not be preparing a model template for this, but have issued minimum requirements in an Order in Council.

For those who want to 'step-up' from Inland Revenue's minimum requirements, the New Zealand Institute of Chartered Accountants is currently drafting a Special Purpose Financial Reporting Framework for For-Profit Entities, which will set out reporting standards to follow.

It is set to be the go-to guide for companies who wish to have a quality set of financial statements, without reporting under the more complex International Financial Reporting Standards.

Changes to financial statement filing requirements for companies

The Financial Reporting (Amendments to Other Enactments) Act 2013 has amended the requirements for financial reporting requirements by companies in the Companies Act 1993.

Companies that now have to file their financial statements with the Companies Office are:

- Large companies (assets >$60 million or revenue >30 million) with 25 percent or more overseas ownership
- Large overseas companies (assets > $20 million or revenue >$10 million) .

There are some exemptions to the above under section 207D(2) of the Companies Act 1993.

If you are required to report under the Companies Act, you must file audited financial statements within five months of balance date.

Companies who are issuers now report under the Financial Markets Conduct Act 2013.

Changes to fringe benefit tax (FBT) for registered charities

From 1 April 2014, some Charities may no longer be exempt from paying FBT. If a charity provides short-term charge facilities (including petrol or grocery vouchers) to an employee above a threshold, the charity must pay FBT.

This threshold is given per employee and is the smaller amount of:

- 5 percent of an employee's salary or wages for the year, or
- $1,200 for the year.

If a charity provides short term charge facilities to an employee, the charity will need to ensure it is registered for FBT, files an FBT return, and pays the FBT owing.

www.ird.govt.nz/news-updates/like-to-know-fbt-changes.html

Should you have any questions about any of the articles in this newsletter, please contact your local audit team.

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