

The next great leap forward

What's around the corner for you? Maybe the next frontier of the accounting profession, says Peter Casey

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The frontiers of accounting have continued to expand to meet the increased complexity and opportunities that we face in the modern world. These changes impact on Chartered Accountants as professionals, as individuals, as members of specific entities and as part of a wider community.

The production of quality external reporting is a core role of the accounting profession. To perform this role requires a detailed appreciation of:

- client, organisational and stakeholder needs
- internal management systems and processes
- legislative requirements
- the methodology underlying the reporting and verification of information known as the NZ Framework.¹

The next frontier

So where are the current frontiers of external reporting? Is it XBRL and the potential breath-taking efficiency and streamlining that this could bring to the profession and industry alike, or is this just the benefit of information technology platforms and systems finally being realised at a new level?

Looking beyond the noise of new technology, one should turn to the heart of accounting reporting, and particularly the underlying methodology and framework. It is through the NZ Framework and its application that it should be possible to bring about improved non-financial information reporting. This is where the next great leap forward for the accounting profession should logically emanate.

Potentially, here lies the platform from which the New Zealand Institute of Chartered Accountants can supply the rigour and discipline needed by the sheriffs and pioneers of the next tough frontier of the profession. That is the materially improved robust reporting of non-financial information.

The Institute has a cadre of sheriffs and pioneers seeking to explore this frontier; a cadre to be found in the public sector, among other places. New Zealand and its accounting profession led the world in moving its public sector to accrual accounting and the implementation of other financial disciplines which now have been in place for so long they are almost ho-hum. The quality of reporting in our public sector is a testament to the hard work of many players over the years. As a comparative example the United States still has some distance to travel in its public sector reporting:

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"The United States of America (Government) produced its first audited consolidated financial statements using accrual accounting for the fiscal year 1997. Perhaps not surprisingly, this first formal set of statements did not get a clean audit report; in fact they received a disclaimer (not even a qualified opinion). As they have for the subsequent six years."²

Public and private sector non-financial reporting

Turning to the future, a real and material issue that the public sector is currently grappling with is how it can better report non-financial information in a manner that is reliable, verifiable, and presents a "true and fair view" of the entity. This is not, however, just the domain of the public sector. The drive to report improved non-financial information is also being shareholder and stakeholder driven within the private sector. Voluntary codes such as the Global Reporting Initiative (GRI) are used by large multinationals down to small private companies to assist them with their external reporting. Other voluntary codes such as AccountAbility 1000 Framework and ISO standards also have real currency.

As outlined above, many organisations in the private sector have realised that they need to take a proactive approach in

this area to adequately meet the needs of their stakeholders. For accountants who may consider this an irrelevant matter, it may be prudent to take notice and in particular observe what accountants within the public sector are working on. Therefore, what may be your tomorrow is currently, or will soon be the reality for accountants in this sector.

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This general requirement for improved non-financial reporting is at varying levels within different parts of the public sector. The cutting edge of this lies in an area many may consider to be a backwater and area of little imagination – the Local Government Act 2002. This Act places a heavy emphasis on the need for local authorities to identify “community outcomes” in order to provide opportunities to discuss their desired outcomes in terms of the present and future social, economic, environmental and cultural well-being of the community.

The Act does not specify how this information is to be reported, but it does require the annual report to “identify the community outcomes; report the results of any measurement undertaken during the year; report progress towards the

achievement of those outcomes; describe the identified effects that activity within the group of activities has on social, economic, environmental, or cultural well-being of the community” and “include an audited statement”.

Other entity-specific legislation requires social and environmental information, for example the Land Transport Management Act and the Fisheries Act. Also within the core central government sector there are recently revised requirements around development of an annual Statement of Intent requiring public sector entities to provide a new threshold for providing relevant and useful information. This process puts in place the setting of targets and measures that are exposed to the

audit and verification process that the financial statements experience.

Building from a solid base

Therefore, the question that accountants in these organisations face is how will the NZ Framework (which has yet to be released), which is the basis for preparing, evaluating, assessing, and verifying the external reporting of the entity, be of real assistance in this process?

In the meantime, the answer lies in the detail and, as is common, it is in the detail where the real intellectual and practical challenges lie. The Office of the Auditor-General, directly responsible for the audit of all public sector entities, including local authorities, has been working hard on developing improved tools to assist both the sector and auditors with the requirements that arise from the Local Government Act 2002. Self-assessment and guidance material including checklists that have been provided are helpful tools.³

So next time you bump into an accountant from one of the many different types of entities within the public sector, an opportunity is being presented to you. Your immediate concern in your accounting day may be the complexity of some tax reporting, how New Zealand International Financial Reporting Standards will be implemented, or the consolidation issues across a range of groups. However, I suggest you take the time to ask them how they are facing and addressing the challenge of dealing with reporting relevant and verifiable non-financial information. The answers and comments may not be highly relevant to you today, but that conversation may be the starting point for your own thinking about your clients or organisation in terms of presenting quality non-financial information.

Footnotes

- 1 With adoption of NZ IFRS the NZ Framework will supersede the Statement of Concepts.
- 2 “View from the Top”: Ian Ball, 2004 NZICA Public Sector Convention.
- 3 See www.oag.govt.nz ■

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