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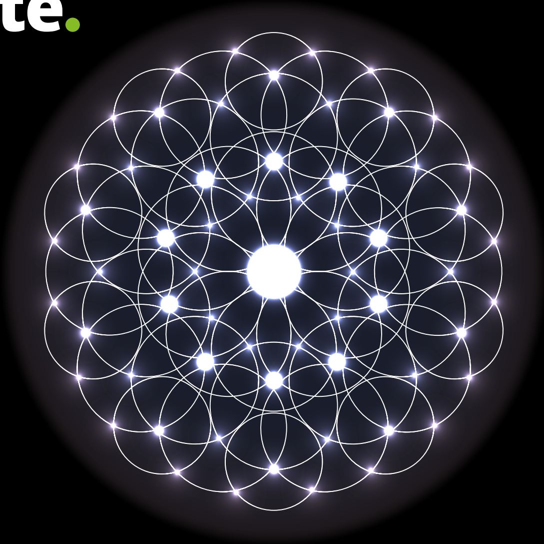

Implementing new accounting standards

Guide for directors

May 2017

Over the last few years, the fast pace of change in financial reporting has continued, with standard setters completing key projects on revenue, financial instruments, leases, and insurance. These standards are expected to result in significant changes to the financial statements of some entities. With any significant change in accounting, there are also broader business considerations that need to be addressed.

Directors will need to engage with management to ensure that new standards are considered early to identify any issues that may arise on implementation. For some entities this process may be driven primarily by the audit committee, however all directors will need to consider the key impacts to the business and to stakeholder communications.

This publication includes questions for directors to ask themselves and management regarding the transition to new financial reporting standards.

Engaging with management

Management should have a plan for implementing any new financial reporting standards, including a timetable, allocation of responsibilities and resource requirements.

- How will the directors monitor management's progress in implementing new standards?
- What accounting policy choices are available under new standards? Are the selected accounting policies appropriate for the entity's circumstances?
- Should any of the standards be adopted early?
- Are directors knowledgeable about the new standards so that they can effectively challenge management's analysis and recommendations?

Resource requirements and management procedures

Finance team members and others in the business who may be impacted, such as valuers or those negotiating contracts, may need additional skills and resources to analyse and implement the new financial reporting standards.

- Are there plans to provide training for existing team members, increase internal resources or engage specialist advisors?
- What data will be required to comply with the recognition, measurement and disclosure requirements of new standards? Is the entity's IT system able to provide the required information or are changes or upgrades required?
- Do financial reporting processes, procedures or controls need to be changed to ensure that transactions are processed and presented correctly in the financial statements?
- How will forecasting and budgeting processes be impacted?

Financial reporting process

The finance team may need to perform additional or earlier procedures to successfully meet financial reporting deadlines.

- Does the timetable for the completion of year-end reporting provide adequate time for the directors to consider the impact of new standards on the financial statements, annual report and market announcement content?
- Are the entity's subsidiaries, associates and joint arrangements adopting new standards concurrently or will adjustments be required to enable consolidation?
- Should pro-forma financial statements be drafted so that updated accounting policies and new disclosures can be considered in advance of year-end?
- Is there a process to engage with the auditors to discuss changes to financial reporting standards?
- What significant estimates and judgements will be required in applying the new standards? Are the estimates and judgements made by management reasonable and consistent with the directors' understanding of the business?

Legal, tax and regulatory considerations

The impact of new standards may not be limited to the finance function. Directors will need to consider potential impacts on the wider business.

- Are changes needed to the terms and conditions in standard contracts to reduce complexity in accounting for transactions?
- Are there any tax implications of adopting new standards?
- Will changes to accounting policies prevent the entity from meeting covenants under its current funding arrangements? If so, has the entity obtained the necessary waivers or worked with the funders to adjust the covenants?
- Are there any other contracts which could be affected, such as employee remuneration agreements or sale and purchase agreements that are tied to profit measures or other financial statement figures?
- Will there be any impact on regulatory or supervisor reporting?

Communicating with your stakeholders

Directors will need to consider how to educate shareholders and other stakeholders, such as lenders, creditors and analysts, about significant changes to the entity's financial statements resulting from the adoption of new standards.

- How will the directors communicate key changes to stakeholders?
- Where financial information is included in public announcements, are the figures or measures presented consistently with the way they will be reported in the next financial statements?
- Do the financial statements adequately disclose:
  - the impact of new standards adopted during the current reporting period, including information about any restatement of prior period figures?
  - accounting policy choices applied in adopting the new standards?
  - significant estimates and judgements made in applying the new standards?
  - the expected impact of standards which will be adopted in future reporting periods?
- Will the directors provide commentary on the impact of new financial reporting standards in the Annual Report (for example in the Directors' Report)?
- On what basis is prospective financial information prepared? Is there sufficient disclosure around the expected impact of changes to financial reporting standards?

Resources

Other useful publications can be found on our website at **www.deloitte.co.nz**. In particular, our guide for directors entitled 'Achieving quality financial reporting' outlines considerations for overseeing the preparation of effective financial statements and annual reports.

The guide is available at:
https://www2.deloitte.com/nz/en/pages/audit/articles/achieving-quality-financial-reporting-guide-for-directors.html

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