

URC RESEARCH REPORT

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Project Title:

The Financial Effects of the Adoption of New Zealand Equivalents of International Financial Reporting Standards (NZ IFRS)

1. What is (are) the research question(s)?

1. What was the average increase in audit fees for New Zealand listed firms due to the adoption of IFRS?
2. Do the increases in audit fees reflect differences in the size of the listed firms?
3. Does the pattern of audit fee increases reflect a learning effect for the audit firms with firms adopting IFRS later experiencing a lower increase than early adopters?

2. Rationale

The NZ Securities Commission (2004) suggested that the move to IFRS would be a major contributor to improving investor confidence in local markets. A cost benefit analysis of the potential effect on the New Zealand economy from adopting IFRS was performed by Dunstan (2002) who concluded that adoption should be supported. In her report Dunstan (2002) stated that there was evidence linking the quality of financial reporting to the strengthening of securities markets and hence to improvements in access to capital and greater economic growth. This finding, along with the worldwide momentum toward globalisation of financial reporting standards facilitated the decision to adopt the new standards.

The current study seeks to document one of the costs arising from the change to IFRS; a separate study will examine the benefits associated with the change.

3. Methodology

The research method will employ well accepted audit fee pricing models from the auditing academic literature to examine the change in audit fee. .

4. Outcomes / findings

There were significant increases in audit fees for companies adopting NZ IFRS. Overall, the financial statement impacts were less significant for listed companies but there were major variation from one company to the next. The costs incurred have implications for policy makers as to whether or not NZ IFRS should be applied by small and medium-sized entities.

5. Publications and dissemination

Book chapters (Refereed)

Hart, C. & Rainsbury, E. (2008). Chapter 14 – Preliminary Investigation into the Transition to New Zealand Equivalents of International Financial Reporting Standards. In Venu, L. (Ed.), *Convergence to International Financial Reporting Standards: Country Perspectives*. Hyderabad: The Icfai University Press.

Conference Presentations (Refereed)

Hart, C. and Rainsbury, E. (2007). Transition to New Zealand Equivalents of International Financial reporting standards. Paper presented at the Accounting and Finance Association of Australia and New Zealand Conference, July 2007, Surfers Paradise.

Article submitted to Chartered Accountants Journal

Hart, C. Rainsbury, R and Sharp, J. New Zealand International Financial Reporting Standards – What has been the Impact on Fees paid to Auditors?

Paper in preparation to submit to Pacific Accounting Review