



EXTERNAL REPORTING BOARD

Te Kāwai Ārahi Pūrongo Mōwaho

Annual Report

For the year ended 30 June 2016

Presented to the House of Representatives in accordance with
section 150(1) of the Crown Entities Act 2004

Table of Contents

Part 1: Organisational Overview

Introduction	8
XRB Board Members	8
Functions of the XRB	8
Organisational Structure	9
Key Achievements	10
Introduction	10
Establishing a period of relative standards stability and maintaining existing suites of standards.....	10
Undertaking deliberate, organised research into the financial and non-financial information needs of the various users of XRB standards	11
Actively seeking to influence the agenda and standards development work of the international standard setting boards.....	11
Maintaining Capability and Ensuring Value for Money	13
Acknowledgements.....	14
The XRB's Performance Framework	18
Introduction	18
The XRB has adopted an overall performance framework to guide both the organisation's strategic direction and its day-to-day operations.	18
The performance framework for the 2015-16 financial year was contained in the Statement of Intent for that year and is illustrated, in an updated format, in Figure 2..	18
Outcome Goal.....	21
Outputs	22
Planned and Achieved Performance	23
Purpose of this Section	23
Outcome Goal.....	23
Output Delivery	26
Ownership Performance	26
The XRB's actual scope of business fell within the planned scope of business at all times during the year.	26
Other Matters	28
Employer Information	28
Other Information Required by the Crown Entities Act 2004	30
Statement of Performance.....	34
for the Year Ended 30 June 2016	34
External Reporting Board	48

Statement of Responsibility	48
For the Year Ended 30 June 2016.....	48
External Reporting Board	49
Statement of Comprehensive Revenue and Expense	49
For the Year Ended 30 June 2016.....	49
External Reporting Board	50
Statement of Financial Position	50
As at 30 June 2016	50
External Reporting Board	51
Statement of Movements in Equity	51
For the Year Ended 30 June 2016.....	51
External Reporting Board	52
Statement of Cash Flows.....	52
For the Year Ended 30 June 2016.....	52
External Reporting Board	53
Statement of Accounting Policies.....	53
For the Year Ended 30 June 2016.....	53
External Reporting Board	55
Notes to the Financial Statements	55
For the year ended 30 June 2016	55
Appendix: Board Members	70
Members of the External Reporting Board during 2015-16.....	70
Members of the New Zealand Accounting Standards Board during 2015-16	70
Members of the New Zealand Auditing and Assurance Standards Board during 2015-16	71



Part 1: Organisational Overview

Introduction

The External Reporting Board (XRB) is an independent Crown Entity, with continued existence under section 11 of the Financial Reporting Act 2013, and subject to the Crown Entities Act 2004.

This Annual Report for the year ended 30 June 2016 has been prepared and presented in accordance with sections 150(1) and 154 of the Crown Entities Act 2004. It reports against the XRB's Statement of Performance Expectations for the year.

The XRB came into existence on 1 July 2011 when it was reconstituted from the Accounting Standards Review Board (ASRB) following amendments to the Financial Reporting Act 1993. This report therefore covers the fifth year of the XRB's operations.

XRB Board Members

Under the Financial Reporting Act 2013¹, the XRB Board is required to consist of not less than four, nor more than nine, members appointed by the Governor-General on the recommendation of the Minister of Commerce. Members are required to be qualified for appointment by reason of their knowledge of, or experience in, business, accounting, auditing, finance, economics or law. Members are appointed for a renewable term of up to five years.

The XRB Board members over the past year are listed in the Appendix to this Annual Report.

Functions of the XRB

The XRB's functions are prescribed by Section 12 of the Financial Reporting Act 2013² and are as follows:

- Developing and implementing an overall strategy for financial reporting standards (both accounting and auditing & assurance standards), including developing and implementing tiers of financial reporting;
- Preparing and issuing accounting standards, and authoritative notices;
- Preparing and issuing auditing & assurance standards, including the professional and ethical standards that will govern the professional conduct of auditors; and
- Liaising with national and international organisations that exercise functions that correspond with, or are similar to, those conferred on the XRB.

The performance framework developed by the XRB to give effect to these functions is outlined in Part 2 of this Annual Report.

¹ The Financial Reporting Act 2013 replaced the Financial Reporting Act 1993 on 1 April 2014. The XRB Board membership requirements are the same in both Acts.

² The functions of the XRB under the 2013 Act are not significantly different from those under the 1993 Act.

Organisational Structure

The XRB Board has established two standard setting boards to which it has delegated certain functions:

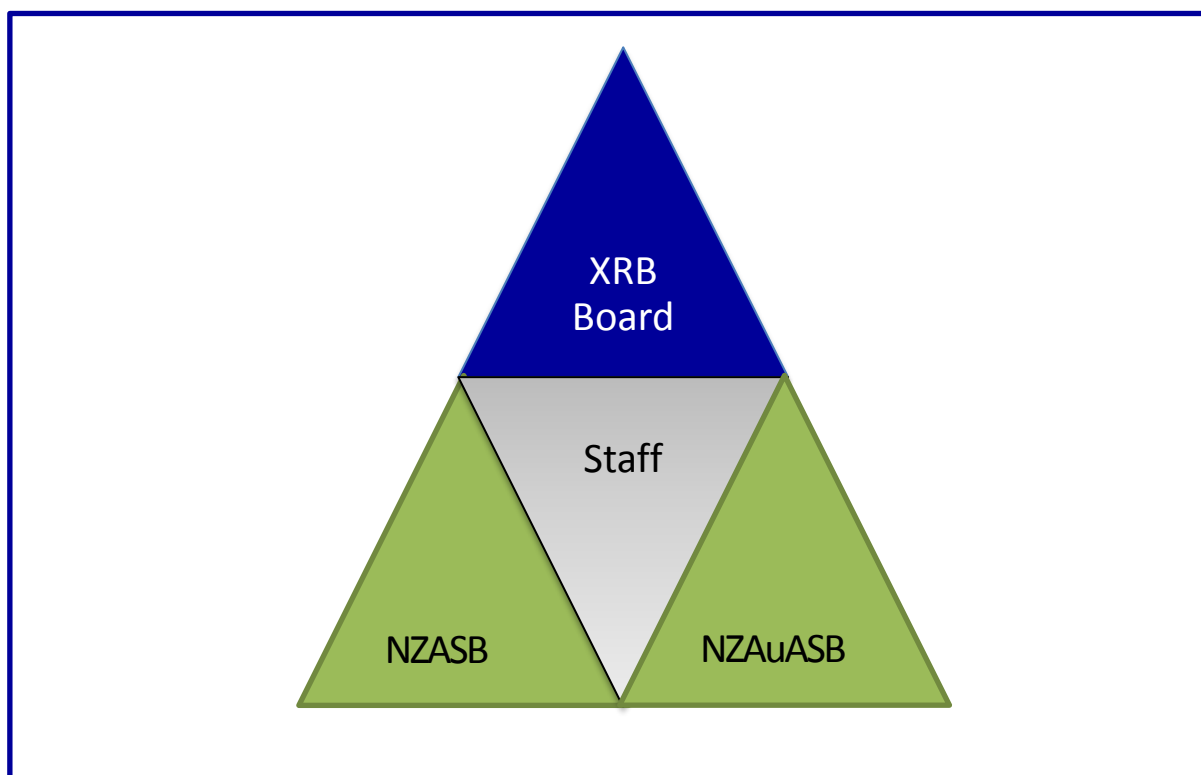
- The New Zealand Accounting Standards Board (NZASB) is responsible for accounting standard setting; and
- The New Zealand Auditing and Assurance Standards Board (NZAuASB) is responsible for auditing & assurance standard setting.

These two standard setting boards are Committees of the XRB Board appointed in accordance with the provisions of Schedule 5 of the Crown Entities Act 2004. These standard setting boards each comprise around ten suitably qualified and experienced persons with a diversity of perspective who are part-time and remunerated. They have delegated authority from the XRB Board to develop and issue accounting and auditing & assurance standards respectively. The members of the two standard setting boards over the past year are listed in the Appendix to this Annual Report.

This structure is designed to ensure that technical resources are available and that standard setting is carried out in accordance with best practice. It should be noted that it matches functional equivalence with Australia, where there is an Australian standard setting board to match the equivalent New Zealand board.

The XRB Board and the two standard setting boards are supported by a small staff team (currently 15) as illustrated in Figure 1.

Figure 1: XRB Organisational Structure



Key Achievements

Introduction

The XRB's main strategic focus during the year has been in the following areas:

- Establishing a period of relative standards stability during which the existing suites of standards are maintained to reflect changes to international standards and, where necessary, enhanced to address any deficiencies or gaps that are critical to user-needs and the quality of financial reporting in New Zealand. This will allow the constituency to implement and adapt to the standards reforms of 2011-2016;
- Undertaking deliberate, organised research into the financial and non-financial information needs of the various users of XRB standards, as a basis for considering enhancements to the financial reporting framework or specific standards in the future, and to help inform efforts to influence the work of the international standard setting boards;
- Actively seeking to influence the agenda and standards development work of the international standard setting boards based on three broad (and interconnected) approaches: relationships, staff participation in selected projects and supporting New Zealand membership on international boards;
- Continuing to enhance constituency engagement and support, both in terms of development of standards and awareness raising activities to help better understand the role, purpose and requirements of XRB standards. Actively facilitating other relevant organisations to provide appropriate training and professional development activities relating to enhancing financial reporting. Actively ensuring linkages with other agencies in the financial reporting and assurance areas to coordinate our work and identify any gaps; and
- Maintaining a high performance culture commensurate with achieving the XRB's outcome goals, while operating in a financially prudent manner and maintaining the level of capability needed to deliver the outputs required.

The main activities are outlined below:

Establishing a period of relative standards stability and maintaining existing suites of standards

Existing sets of standards have been maintained during the year. This involves issuing in New Zealand, exposure drafts and standards that are issued by the international standard setting bodies, most notably the International Accounting Standards Board (IASB®), the International Public Sector Accounting Standards Board (IPSASB), the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA).

All relevant pronouncements from these international boards have been issued in the appropriate form during the year.

In addition, the XRB has provided comment on relevant exposure drafts and other consultation documents issued for comment by these international standard setting boards, other international bodies and by New Zealand agencies in relation to changes in financial reporting and also the application of the accounting and assurance frameworks.

Significant work to develop an accounting standard on Service Performance Reporting was continued again this year, with the issue of an Exposure Draft for comment in February 2016. The need for a standard in this area has been evident for some time and the XRB Board and NZASB have both assigned this project a high priority. The NZAuASB has also continued the development of an auditing standard on Service Performance Reporting, with the aim of issuing an exposure draft late in 2016.

Undertaking deliberate, organised research into the financial and non-financial information needs of the various users of XRB standards

During early 2015, the XRB established a five-year user-needs research programme. Some of the research projects will be undertaken in house and some will be contracted out.

The work continued on implementing the research programme and the first project on the *Information Needs of Users of New Zealand Capital Market Entity Reports* was completed in September 2015, and published in February 2016 together with some media attention. The second project on *Researching Financial Information and Assurance Needs of Users of For-Profit Tier 2 Entity Reports* was competitively tendered in late February 2016 and awarded to a research team from Massey University in April 2016.

In addition, in-house research projects were commenced and continued through the year as follows: Other Assurance Engagements; Common Transactions of Incorporated Societies; and Assurance Needs of Users of Financial Statements of Small Not-for-Profit Entities.

Actively seeking to influence the agenda and standards development work of the international standard setting boards

The XRB has a strategy of seeking to influence international standards during their development phase. During the year, the XRB staff contributed to a project being undertaken by the IPSASB to enhance the standards relating to Revenue and Non-Exchange Expenses. In addition, the XRB staff have continued working with the IASB on its Disclosure Principles project.

Also during the year:

- The XRB continued supporting the contribution of the New Zealand member on the IPSASB. A nomination is in progress, for the New Zealand member to be Deputy Chair of the IPSASB for the 2017 year.
- New Zealand was successful in having a member appointed to the IAASB, for a three-year term commencing 1 January 2017.

- Staff and standards board members attended relevant meetings of international standard setter groups, including the Asian-Oceania Standard-Setters Group (AOSSG), IASB, the IASB's World Standard-Setters (WSS), the IASB's International Forum of Accounting Standard Setters (IFASS), the IAASB, the National Standard-Setters (NSS) (of the IAASB and the IESBA), IPSASB, IPSASB Consultative Advisory Group (CAG), and the inaugural International Forum for Public Sector Standard Setters held in March 2016.
- The NZASB, through its chair, and working with the Australian Accounting Standards Board (AASB), was appointed to the IASB's Accounting Standards Advisory Forum (ASAF) for a term of three years. We are one of three members from the Asia-Oceania region.
- The XRB hosted several visits by international board members and key staff from the IASB, IAASB, IPSASB and the International Integrated Reporting Council (IIRC).
- The XRB contributed to the standard setting work of the AOSSG.
- The XRB participated in trans-Tasman co-ordination initiatives through the appointment of board members as members of the Australian Financial Reporting Council (FRC), Australian Accounting Standards Board (AASB), and the Australian Auditing and Assurance Standards Board (AuASB). The counterpart Chairs from these Australian bodies were members of the XRB Board, NZASB and NZAuASB.

Continuing to Enhance Constituency Engagement and Support

The XRB has a statutory obligation to consult with constituents before issuing accounting or auditing & assurance standards. The XRB is fully committed to following appropriate due process and considers this an essential part of the standard setting process.

During the year the XRB ran many seminars, webinars, podcasts and published articles and newsletters on a wide range of matters that were the subject of exposure drafts or discussion papers. The XRB Board also held some general discussions with key constituent groups about broader financial reporting matters.

During the year there were extensive communications to help inform the constituency about financial reporting changes. These included:

- Seminars, webinars and roundtables on: the new Auditor Reporting and Key Audit Matters standard; IAASB's Invitation to Comment *Enhancing Audit Quality in the Public Interest* and Audit or Review of Performance Reports of Tier 3 Not-for-Profit PBEs;
- The publication of a number of explanatory guides that help explain the requirements of standards;
- Seminars on recently issued PBE standards, exposure drafts on service performance reporting for Tier 1 and Tier 2 PBEs and five exposure drafts on accounting for interests in other entities; and

- Seminars and webinars on the new legislation and accounting standards aimed at small registered charities and other not-for-profit entities, particularly as this is the first year New Zealand registered charities are required to file their financial reports under the new accounting framework.

The External Reporting Advisory Panel (XRAP), another vehicle for gathering the views of constituents, met twice during the year and actively contributed ideas to XRB Board deliberations on various matters³.

Both the XRB Board and its two standard setting sub-boards continued to hold the majority of the non-governance part of their meetings in open session during the year. Members of the public are able to attend as observers during the open sessions and each board held at least one meeting in Auckland during the year to allow the constituency in the Auckland region to attend if they wished (the remaining meetings were held in Wellington). In addition, the agenda papers for the open part of the meetings are available for download from the XRB website (www.xrb.govt.nz) as are the relevant minutes.

Ongoing enhancements to the XRB website were also made during the year to assist users to more easily navigate the website. Also, we commenced a major upgrade of the website during the year, with our current website, which was established in 2011, being not as user-friendly as we require. The website is our key communication platform for disseminating all of our work and we are hoping to have the new website operational at the end of 2016.

Maintaining Capability and Ensuring Value for Money

From an ownership performance point of view, the main operational focus during the year has been ensuring that the XRB as an organisation is operating in an efficient and effective “steady-state” mode.

The organisation had one staff vacancy at year end. However the XRB Board does not have any capability concerns.

The XRB Board remains conscious of the Government’s fiscal constraints, the need to operate within our means, and to ensure value for money in all the XRB does. Accordingly, a cost-control, value for money, continuous improvement culture and approach continues to be promoted within the organisation. This includes participation in the All of Government

³ The XRAP consists of around 15 senior level persons who are individuals with strong networks that enrich their advice to XRB, or representatives of organisations, interested in the development of high quality accounting standards and auditing & assurance standards. Members are drawn from across the for-profit, public and not-for-profit sectors and between them reflect a variety of perspectives including user groups, preparers (both management and directors), financial analysts, investors, audit committees and auditors.

The objective of the XRAP is to provide a forum for the XRB Board, the NZASB and the NZAuASB to consult individuals and representatives of organisations affected by its work. The XRAP is responsible for providing advice to the three boards on strategic and tactical issues including, but not limited to:

- Issues relating to the external reporting environment in New Zealand;
- The New Zealand standard setting framework;
- Projects on the boards’ agendas; and
- Practical application and implementation issues.

procurement programme, which we utilised successfully for the contract to redevelop the website.

Acknowledgements

The XRB Board would like to thank the members of its two standard-setting boards – the NZASB and the NZAuASB – and the XRAP, for their significant contribution to the work and achievements of the XRB during the past year.

The XRB Board would also like to recognise the efforts and dedication of the staff team in progressing the XRB’s strategic priorities and the many achievements during the year.

A handwritten signature in black ink, appearing to read 'G Mitchell', with a stylized, cursive script.

Graeme R Mitchell
Chairman



Part 2: Performance Report

The XRB's Performance Framework

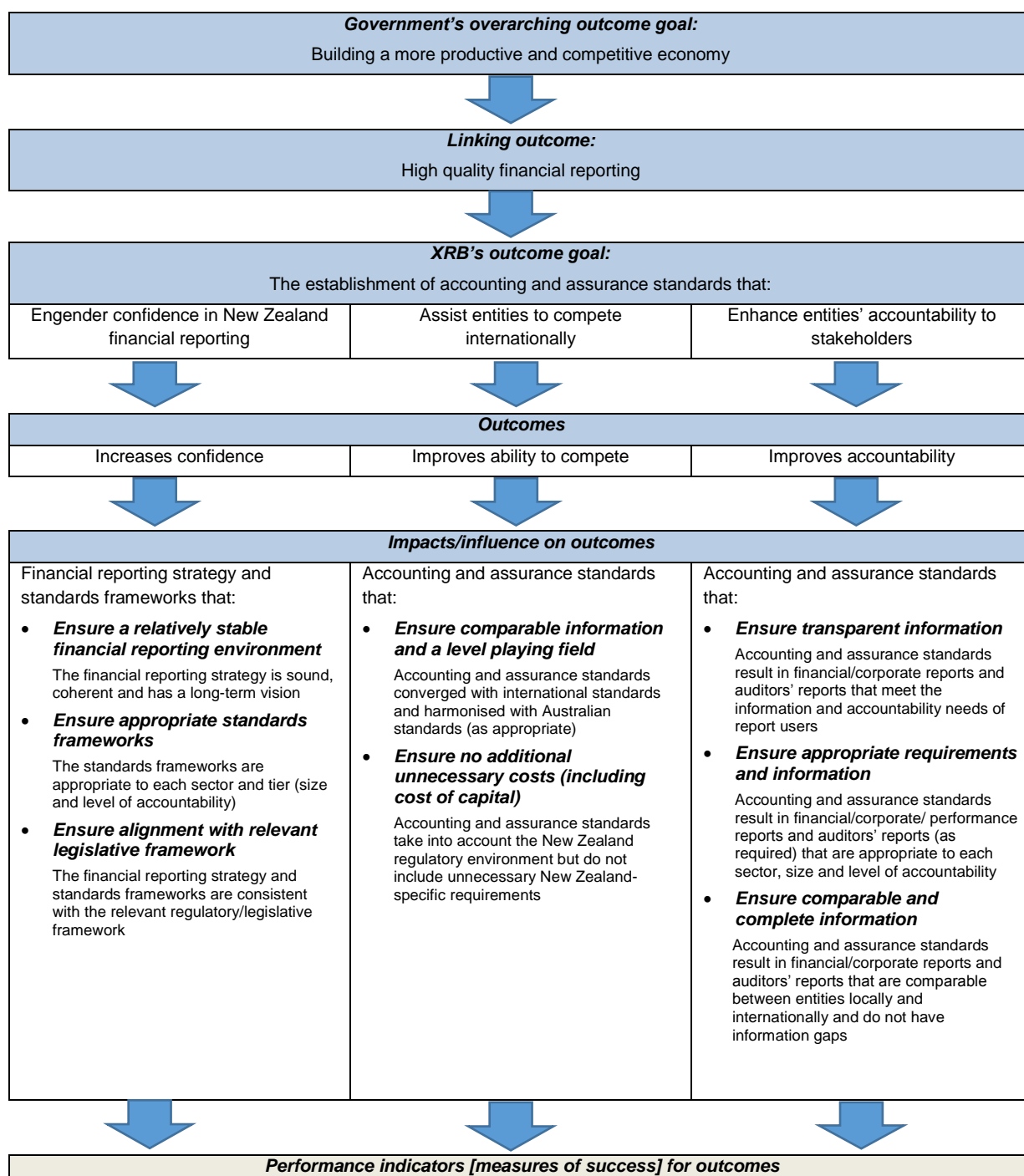
Introduction

The XRB has adopted an overall performance framework to guide both the organisation's strategic direction and its day-to-day operations.

The performance framework for the 2015-16 financial year was contained in the Statement of Intent for that year and is illustrated, in an updated format, in Figure 2.

Figure 2:

XRB's Outcome, Impact and Output Performance Framework

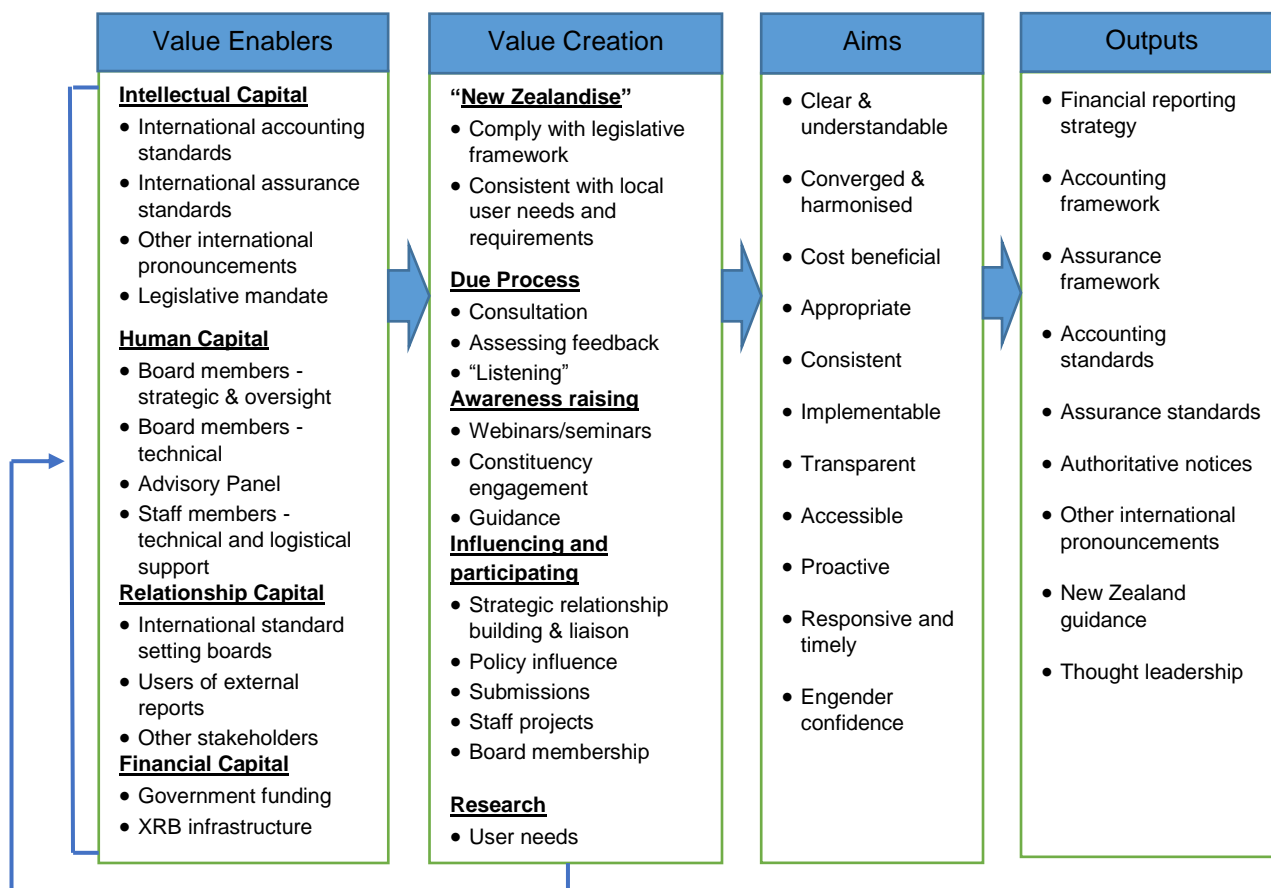


<i>Increased confidence</i>	<i>Improved ability to compete</i>	<i>Improved accountability</i>
<ul style="list-style-type: none"> • Ensure stability <ul style="list-style-type: none"> ○ Reliability of financial reporting strategy that requires infrequent changes ○ Reliability of standards frameworks that require infrequent changes ○ Enduring policy of international convergence/harmonisation, sector-specific standards and Tier Structure • Ensure appropriateness <ul style="list-style-type: none"> ○ Responsiveness and timeliness of standards frameworks to legislative changes and stakeholder feedback ○ Number of requests for and timeliness of changes to standards frameworks • Ensure alignment with legislative frameworks <ul style="list-style-type: none"> ○ Consistency of standards frameworks with legislative frameworks ○ Timely reflection of legislative changes in XRB's standards 	<ul style="list-style-type: none"> • Ensure comparability <ul style="list-style-type: none"> ○ Independent reports/studies on New Zealand's international competitiveness ○ Continuation of XRB's policy on influencing international boards ○ Number of requests for and timeliness of New Zealand-specific amendments to standards that are not related to legislative or standards frameworks ○ Responsiveness to and timeliness of standards to new (or amended) international standards • Ensure reduced cost of capital <ul style="list-style-type: none"> ○ Independent comment/reports on New Zealand's competitive position or ranking attributable to accounting and assurance standards ○ Independent comment/reports on New Zealand's reaction to international reporting trends 	<ul style="list-style-type: none"> • Ensure transparency <ul style="list-style-type: none"> ○ Independent comment/reports about transparency and understandability of reported corporate information ○ Independent comment/reports about audit quality • Ensure appropriateness <ul style="list-style-type: none"> ○ Responsiveness and timeliness of standards to legislative changes and stakeholder feedback ○ Number of New Zealand requests for and timeliness of changes to standards ○ Independent feedback from other regulatory bodies about the requirements of standards ○ Findings from independent New Zealand user-needs research • Ensure comparability and completeness <ul style="list-style-type: none"> ○ Findings from independent New Zealand user-needs research ○ Independent comment/reports on stakeholder awareness of wider corporate reporting and non-financial reporting matters
<ul style="list-style-type: none"> ○ Findings from domestic and international stakeholder survey on XRB's work 		



<i>Outputs to influence achievement of outcome goal</i>	
Financial Reporting Strategy, Accounting Framework, Assurance Framework and thought leadership	
	Accounting Standards, Authoritative Notices, other international pronouncements and New Zealand guidance
	Auditing & Assurance Standards, other international pronouncements and New Zealand guidance

Figure 3: XRB's Value Adding Model



Value enablers

- Resources and relationships used in our value creation process.

Value creation

- Processes utilised, together with the value enablers, to deliver outputs to our stakeholders; and
- Learnings from our processes become feedback into our value enablers.

Aims

- Objectives driving the delivery of our outputs.

Outputs

- Services created by our value adding model and contributing to our outcome goal.

Outcome Goal

Government Priorities

The Government established the following as its priorities for the period covered by this Annual Report:

- *Building a more productive and competitive economy;*
- *Responsibly managing the Government's finances;*
- *Delivering better public services within tight financial constraints;*
and
- *Rebuilding Christchurch.*

The activities of the XRB are most related to the Government's objective to *build a more productive and competitive economy*. Accordingly, this was adopted as the XRB's overarching outcome goal for the year. The XRB did, however, seek to contribute to the Government's other priorities in ways appropriate to the XRB. This included ensuring that the accounting standards encourage reporting of the Government's finances in a transparent and meaningful way and ensuring that the XRB operated in an efficient and fiscally prudent manner with a culture of continuous performance improvement.

XRB's Outcome Goal

An important condition for a productive and competitive economy is effective accountability and good corporate governance. This applies in all sectors (for-profit, public sector and not-for-profit) and, in this sense, effective accountability to the public and good corporate governance needs to be viewed in a wider multi-sectoral way rather than in just a commercial context.

Good corporate governance requires, among other things, systems and processes that encourage the management of entities to behave in ways that are fully consistent with the interests of shareholders and other stakeholders. To that end, one of the main purposes of financial reports is to promote the accountability of the management of an entity to those who own it, either directly (e.g. shareholders in the case of companies or members in the case of not-for-profit entities) or indirectly (e.g. taxpayers or ratepayers in the case of public sector entities). There is often accountability to a wider range of stakeholders as well, for example, debt security holders in the case of issuers of securities, service recipients in the case of public sector entities and donors in the case of charities.

High quality financial reporting (incorporating both financial and, where applicable, non-financial elements) that informs the decision-making of stakeholders is therefore important to achieving effective accountability and good corporate governance, and through them building a more productive and competitive economy. To achieve this, financial reporting needs to be of a quality that engenders stakeholder confidence in the information received, assists entities to compete (particularly internationally, for example by reducing the cost of funds through the use of generally recognised accounting approaches) and enhances accountability (through the transparency provided). In this way, high quality reporting contributes directly to the Government's Business Growth Agenda, particularly the capital markets input area.

High quality financial reporting can be achieved only if the “rules” on which it is based (accounting standards) are reliable and based on clear and sound economic principles, are mutually consistent, can be readily applied by preparers and can be understood by users. Assurance provided on that information is similarly based on standards that require robust and independent examination by assurance providers. In other words, a necessary condition for high quality financial reporting is high quality accounting and assurance standards. It is through the issuing of such standards that the XRB contributes to the Government’s outcome goals and its Business Growth Agenda.

Accordingly, the XRB is still committed to the following outcome goal:

The establishment of accounting and assurance standards that:

- *engender confidence in New Zealand financial reporting;*
- *assist entities to compete internationally; and*
- *enhance entities’ accountability to stakeholders.*

Outputs

The XRB has defined three key outputs that it delivers in order to influence its outcome goal:

- Financial reporting strategy;
- Developing and issuing accounting standards; and
- Developing and issuing auditing & assurance standards.

These outputs also reflect the XRB’s statutory functions.

Financial Reporting Strategy

The financial reporting strategy output encompasses establishing, and then implementing, an overall standard-setting strategy.

At the overall strategy level, this output involves ensuring that the specific needs of New Zealand users and entities in all sectors are reflected in the reporting requirements contained in the accounting and auditing & assurance standards.

During the first three years of the XRB’s existence this output involved the establishment of a new Accounting Standards Framework, and the strategic parameters for the development of auditing & assurance standards (both of which were finalised in the 2011-12 financial year). Much of the work of the XRB in the 2015-16 financial year involved the ongoing implementation of these strategies.

Over the medium term the focus of this standard setting strategy output will be on ensuring that the accounting and auditing & assurance standards on issue are fit for purpose and are appropriately meeting the information needs of the users of general purpose financial reports across all sectors. The XRB has developed a Strategic Plan to give effect to this during the 2016 to 2021 period. That Strategic Plan, which is entitled

"Giving Life to the User-Needs Framework", was originally published in April 2014 and updated and re-published in August 2016.⁴

Accounting Standards

The accounting standards output involves developing, consulting on, issuing and amending accounting standards. This is an ongoing activity of the XRB which is carried out by the NZASB within the parameters established by the XRB Board.

Much of the detailed standard setting work necessary to give effect to the new Accounting Standards Framework was completed as part of this output during the 2013-14 financial year.

Responding to requests for feedback on pronouncements developed by the international accounting standard setting boards, the International Accounting Standards Board (IASB) and the International Public Sector Accounting Standards Board (IPSASB), and incorporating them into the New Zealand standards where appropriate, is also an important part of this output.

Auditing & Assurance Standards

The auditing & assurance standard output involves developing, consulting on, issuing and amending auditing & assurance standards. This is an ongoing activity of the XRB which is carried out by the New Zealand Auditing and Assurance Standards Board (NZAuASB) within the parameters for those standards established by the Board.

Responding to requests for feedback on pronouncements developed by the international auditing & assurance standard setting boards, the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA), and incorporating them into the New Zealand standards where appropriate, is also an important part of this output.

Planned and Achieved Performance

Purpose of this Section

This section outlines the XRB's planned performance for the 2015-16 financial year (as specified in the 2015-16 Statement of Performance Expectations), together with a summary of the actual performance delivered compared to that planned. More detailed performance information for the year is provided in Parts 3 and 4 of this Annual Report.

Outcome Goal

As detailed earlier, the XRB's outcome goal for the period was:

The establishment of accounting and assurance standards that engender confidence in New Zealand financial reporting, assist entities to compete internationally, and enhance entities' accountability to stakeholders.

⁴ The Strategic Plan is available at: http://www.xrb.govt.nz/Site/about_us/Accountability_Documents.aspx

Contributing to the Outcomes

This outcome goal is used as the lens through which the XRB organisation considers accounting standards and auditing & assurance standards issues. This means that in developing a standard (or considering an international standard for adoption in New Zealand) consideration is given to the three elements of the outcome goal: will the standard help engender confidence in financial reporting, will the standard assist international competitiveness, and will it improve entities' accountability to their stakeholders? Consideration is also given to the trade-offs between the three elements.

Some examples of how this approach is given effect are as follows:

- The XRB's strategy in relation to the accounting standards for for-profit entities is to adopt the international standards (International Financial Reporting Standards – IFRS®) with little or no substantive change. This is to allow entities to be able to assert compliance with IFRS, thereby enabling them to raise capital in international markets at a lower cost.
- By contrast, the XRB's strategy in relation to accounting standards for public benefit entities places greater weight on ensuring that financial reporting engenders confidence and accountability to stakeholders. As international comparability is less of an imperative in this sector, there is a greater ability to modify the applicable international standards (International Public Sector Accounting Standards – IPSAS) for application in New Zealand.
- The accounting standards for Tier 3 and Tier 4 public benefit entities (i.e. small public sector and not-for-profit organisations) follow a simple format reporting approach. This was developed partly to better respond to the respective costs and benefits of reporting by these small entities, and partly with the users of the financial reports in mind. The XRB recognises that many of the users of the financial reports of small not-for-profit organisations are not sophisticated users in the way, for example, financial analysts are. A simpler reporting approach is more likely to provide information understandable to not-for-profit users, thereby enhancing the accountability of these entities to their stakeholders.
- The presumption being followed by the NZAuASB in considering auditing & assurance standards is to adopt international standards unless *there are compelling reasons for a standard to be modified*. This presumption reflects the international competitiveness aspect of the outcome goal – readers will have more confidence in the auditor's report if they know the audit has been conducted in accordance with international best practice (i.e. international standards). The "compelling reasons" test has been established to ensure that standards are relevant in the New Zealand context and therefore relates to the confidence in New Zealand financial reporting aspect of the outcome goal. The compelling reasons for a standard to be modified are:
 - (1) the international standard does not reflect, or is not consistent with:
 - the New Zealand regulatory arrangements; or
 - principles and practices that are considered appropriate in New Zealand (including in the use of significant terminology); and

- (2) the standard can be modified so as to result in a standard that:
- promotes significant improvement in audit quality in the New Zealand environment; and
 - does not conflict with, or result in lesser requirements than, the international standard; and
- (3) the relative benefits of making a change outweigh the costs (with cost primarily being compliance cost and benefit primarily relating to audit quality).

Measuring and Monitoring Outcomes

The XRB pays explicit and deliberate attention to ensuring that it is contributing to the three elements of the XRB Outcome Goal. However, measuring the change in outcome status, and the extent to which the XRB contributed to that change, is a non-precise task.

A large number of factors influence the achievement of the Government's Overarching Outcome Goal, the Linking Outcome and the XRB Outcome Goal during the year. Many of these are outside the control or influence of the XRB. For example, international competitiveness is influenced by a whole range of factors including regulatory settings, labour market pressures, and exchange rates, in addition to the effectiveness of the XRB standards. International competitiveness indices take account of all of these factors and it is challenging to determine objectively the extent of the XRB's contribution.

The links between XRB's Outputs, Outcome Goal and the Government's Overarching Outcome Goal are not always causal and/or direct. Outcome based measures alone would not provide meaningful information about XRB's performance for accountability purposes.

The XRB also considers the relationship between the Government's Overarching Outcome Goal, the Linking Outcome and the XRB Outcome Goal (see Figure 2) is relatively self-evident and clear, as is the nature of the XRB's contribution to these outcomes through the issuing of accounting and assurance standards.

Notwithstanding the non-precise nature of outcome based performance measurement, the XRB is motivated to positively influence the outcomes and significant effort is applied to achieving this – as outlined in the section above. Accordingly, the XRB does monitor likely outcome contribution through cost effective means, principally externally generated measures and studies. This includes monitoring the state of financial reporting through information available from such bodies as the Companies Office, the Financial Markets Authority (FMA), the Office of the Controller and Auditor-General (OAG) and Charities Services of the Department of Internal Affairs (DIA), as well as information in the public domain, such as the "Strength of Auditing and Reporting Standards" index in the Global Competitiveness Report produced by the World Economic Forum⁶. This monitoring is designed to allow the XRB to assess, in a general way, the extent to which the strategies

⁶ In the 2015-16 edition New Zealand is ranked 3rd in the world with a score of 6.4 out of 7. Although the index is based on perception, the Board considers it a potentially useful indicator of the quality of its accounting and auditing standards and therefore a measure of outcome achievement. The index is available at: <http://reports.weforum.org/global-competitiveness-report-2015-2016/economies/#economy=NZL>

adopted and the standards issued are consistent with and contribute to the XRB's Outcome Goal.

Output Delivery

As detailed earlier, the XRB specified three key outputs for the year in its Statement of Intent:

Output 1: Financial Reporting Strategy;

Output 2: Developing and Issuing Accounting Standards; and

Output 3: Developing and Issuing Auditing & Assurance Standards.

All three outputs were delivered during the year and all performance measures and targets specified for those outputs were met. The extent of delivery is shown in the Statement of Performance provided in Part 3 of this Annual Report. The output of the international boards fluctuates and this is reflected in the XRB's output delivery for the year.

The outputs were delivered much as expected during the year.

Ownership Performance

Scope of Business

The XRB's planned scope of business for the year was:

Accounting and assurance standard setting, and associated strategy setting functions.

The XRB's actual scope of business fell within the planned scope of business at all times during the year.

Financial Performance

Financial statements for the year are provided in Part 4 of this Annual Report. A summary of the XRB's financial performance for the year is provided in the table below.

Financial Measure	2015/16 Actual (\$'000)	2015/16 Budget (\$'000)
<i>Revenue</i>	4,462	4,480
<i>Expenses</i>	4,174	4,628
<i>Operating Surplus/(Deficit)</i>	288	(148)
<i>Equity</i>	2,722	1,886
<i>Net Cash Flows from Operating Activities</i>	373	(145)
<i>Net Increase in Cash</i>	320	(165)

Operating

The reasons for the major variations in specific expense items are outlined in Note 19 to the financial statements.

An operating surplus was generated during the year. This principally resulted from cost savings against budget across several expenditure categories – Personnel costs, Travel and General operating costs. Two areas of increased expenditure against budget were Fees to board members and Premises. Forward budgets indicate that this surplus will reduce to be close to breakeven in future years, as the XRB moves to the next phase of its development.

The XRB proposes to retain the surplus to fund future expenses relating to its strategic plan such as research into user-needs for financial reports and supporting New Zealand's representation on international standard setting boards.

Capital Expenditure

The XRB's capital expenditure for the year was \$44,000. This expenditure includes the purchase of hardware as part of our asset replacement program, upgrading of both the Auckland office and Wellington office Wi-Fi and work in progress on the upgrade of the XRB website at www.xrb.govt.nz.

Acquisitions

The XRB did not acquire shares or interests in companies, trusts or partnerships or joint ventures during the period.

Organisational Capability

The key capability initiatives planned for, and achieved, during the year are outlined in the table below. In summary, all the capability initiatives were achieved.

2015/16 Actual	2015/16 Budget
<i>One vacancy existed at year end for a Senior Project Manager in the Accounting Standards team. Otherwise the XRB retained a near full complement of suitably qualified staff.</i>	<i>Retaining a near full complement of suitably qualified staff</i>
<i>Increased the resources available to the Assurance Standards team with the inclusion of a contractor for 20 hours per week.</i>	
<i>Both the Wellington and Auckland offices are at full operational capacity and have been for the entire financial year.</i>	<i>Maintaining full operational capability in the Wellington and Auckland offices</i>

Management of Organisational Risks

The XRB's key risk management initiatives planned for the year, together with the actions taken in the year, are outlined in the following table.

Risk	2015/16 Actual	2015/16 Budget
<i>Loss of property and equipment</i>	<i>Insurance cover acquired</i>	<i>Insurance of property, plant and equipment</i>
<i>Loss of key staff</i>	<i>Cross training undertaken</i>	<i>Cross training</i>
<i>Loss of key data and records</i>	<i>Offsite backup in place</i>	<i>Offsite backup</i>

Other Matters

Employer Information

Workforce Profile

The XRB has had four resignations and five new staff during the year.

The XRB's workforce profile is as follows:

Workforce component	2015/16	2014/15
<i>Employees</i>	<i>15</i>	<i>14</i>
<i>Part-time</i>	<i>13%</i>	<i>14%</i>
<i>Women</i>	<i>66%</i>	<i>85%</i>
<i>Women in Management Team</i>	<i>50%</i>	<i>66%</i>
<i>Non-Pakeha Ethnicity</i>	<i>20%</i>	<i>21%</i>
<i>Maori</i>	<i>0%</i>	<i>0%</i>
<i>Pacific</i>	<i>0%</i>	<i>0%</i>
<i>Employees with Disabilities</i>	<i>0%</i>	<i>0%</i>

Workforce Age Profile	2015/16	2014/15
<i>Under 30 years of age</i>	<i>2</i>	<i>1</i>
<i>30-39 years of age</i>	<i>4</i>	<i>6</i>
<i>40-49 years of age</i>	<i>2</i>	<i>3</i>
<i>50-59 years of age</i>	<i>4</i>	<i>3</i>
<i>≥60 years of age</i>	<i>3</i>	<i>1</i>

Good Employer Information

The XRB is an equal opportunity employer and supports and endorses the principles underlying equal opportunity and good employer legislation. The XRB values its employees

who are its key resource, and strives to provide a caring, supportive and parent friendly environment which provides equal opportunities for all.

With respect to the seven key elements of being a good and equal opportunity employer the XRB reports as follows:

Leadership, Accountability and Culture

The XRB has deliberately established a culture which embraces the "one team" concept. We value hard work, working together as "one team" and celebrating our successes.

Accordingly, all members of the staff team are involved in the creation of the vision, the establishment of work programmes and priorities, the sharing of team achievements, and participating in shaping the future of the organisation.

Recruitment, Selection and Induction

The XRB operates open and public recruitment processes. Candidates of varying skills and backgrounds are encouraged to apply. The XRB appoints staff solely on the basis of qualifications, experience, understanding of the standard setting process and ability to operate within the one team organisational culture. The XRB does not consider age, ethnicity, gender or physical disabilities as part of the appointment process. Nevertheless, the staff team is ethnically, gender and age diverse, comprises a majority of women and includes women in the senior leadership roles.

All new employees undergo an induction process to ensure that they are given the best possible introduction to their role and responsibilities, and the organisational culture of the XRB.

Employee Development, Promotion and Exit

There is a high degree of interaction between persons in senior leadership roles and other staff. This is designed, amongst other things, to assist with the development of all staff. In addition a deliberate, organised mentoring approach to develop the standard setting skills of staff with less standard setting experience is operated.

The technical training and personal development of all staff is encouraged and supported. The XRB considers such development to be an essential part of maintaining standard setting capability as well as being necessary for personal motivation and engagement of individual staff members.

A formal process of establishing annual performance agreements and undertaking annual performance reviews (as well as informal performance discussions during the year) is operated. This forms the basis for ongoing dialogue between managers and staff and is also used as the basis for addressing good and poor performance, including remuneration reviews.

Flexibility and Work Design

The XRB operates in two geographical areas (Wellington and Auckland) to ensure that we are able to recruit and retain the best possible staff regardless of their location. The organisation has two part-time staff members and one part-time contractor. We permit staff to work remotely where appropriate. The XRB is output, rather than input, focused and operates a policy of flexible hours designed to accommodate the needs of its staff.

Remuneration, recognition and conditions

Staff salaries are reviewed by the Chief Executive on an annual basis, taking into account individual performance, market conditions, and any advice from the State Services Commission relating to remuneration setting. External providers are used to provide job sizing and market data to ensure that remuneration is market related.

The XRB's gender pay gap is 4% (2015: 24%). The gender pay gap for the staff involved in standard setting (the main professional group in the XRB) is 9% (2015:16%). The gap reflects the differing seniority (and therefore salaries) of various positions in the XRB organisation. The reduction in pay gap is largely as a result of a vacancy existing for a period of three months (1 July to 30 September 2015) for a Chief Executive, who was male.

Harassment and Bullying Prevention

The XRB has zero tolerance for any form of bullying or harassment, and is not aware of any instances of bullying and harassment during the financial year. Policies and procedures covering harassment and bullying are in place.

Safe and Healthy Environment

The XRB promotes a positive work environment that celebrates events in people's lives and encourages healthy, positive interaction between staff members.

The XRB is committed to ensuring that staff are kept safe and healthy. The organisation has trained first aiders and fire wardens. All offices have a civil defence emergency kit and all staff are encouraged to be prepared in the event of a natural disaster. Workplace assessments and modern desk equipment are provided to ensure employee's comfort at their desks.

All staff are encouraged to take their annual leave in the period they earn it. Staff are also able to access a confidential Employee Assistance Program.

Other Information Required by the Crown Entities Act 2004

In relation to the requirements of section 151 of the Crown Entities Act 2004, the following information is provided:

- In April 2014, the XRB was given a direction by the Minister of State Services and Minister of Finance pursuant to section 107 of the Crown Entities Act 2004 to apply the Government Rules of Sourcing with effect from 1 February 2015.
- The XRB did not undertake any transactions that were in breach of statute but validated in accordance with section 20 of the Crown Entities Act 2004.
- The XRB did not grant permission to any board member to act despite being interested in a matter in accordance with section 68 of the Crown Entities Act 2004.



Part 3: Service Performance

Statement of Performance

for the Year Ended 30 June 2016

This appropriation is limited to the funding of accounting and audit & assurance standards setting for the purposes of promoting the quality of financial reporting.

Output Class	2015/16 Actual	2015/16 Budget	2014/15 Actual
Description Financial reporting and assurance standard setting and associated strategy setting functions	All activities undertaken during the year were within this description	All activities undertaken during the year will be within this description	All activities undertaken during the year were within this description
Cost (\$000)	4,174	4,628	3,948
Revenue from the Crown* (\$000)	4,410	4,410	4,410
Revenue from Others (\$000)	52	70	77

* This appropriation revenue received by the XRB equals the Government's actual expenses incurred in relation to the appropriation, which is a required disclosure from the Public Finance Act 1989.

The performance information supporting this revenue and cost is reported in pages 38-43.

Assessment of performance	2015/16 Actual standard of performance	2015/16 Budgeted standard of performance	2014/15 Actual standard of performance
Number of exposure drafts, standards and related documents issued	67	39-49 (depends on output of International Boards)	102
Standards reflect relevant international standards with departures only to improve quality and are harmonised with Australia where appropriate	100% compliance	100% compliance	100% compliance
Statutory due process requirements followed	*1 Instance of non-compliance	100% compliance	100% compliance
Standards relating to existing standards suites issued in time for the commencement date to be no later than the international commencement date (where relevant)	100% compliance	100% compliance	100% compliance

* See page 43 for variance explanation.

XRB Outcomes	XRB Outcome Measures 2015/16
Increased confidence	
<p>Ensure stability</p> <ul style="list-style-type: none"> Reliability of financial reporting strategy that requires infrequent changes Reliability of standards frameworks that require infrequent changes Enduring policy of international convergence/harmonisation, sector-specific standards and Tier Structure 	<p>Stability of strategy and standards frameworks</p> <ul style="list-style-type: none"> There has been no change to the policy of adopting international standards, sector-specific standards or the Tier Strategy in the 2015-2016 financial year. The Minister was not required to approve any new, or amended, strategy or framework.
<p>Ensure appropriateness</p> <ul style="list-style-type: none"> Responsiveness and timeliness of standards frameworks to legislative changes and stakeholder feedback Number of requests for and timeliness of changes to standards frameworks 	<p>Appropriateness of strategy and standards frameworks</p> <ul style="list-style-type: none"> The Controller and Auditor-General issued a report on the state of financial reporting in the public sector "Improving Financial Reporting in the Public Sector"⁷. The Controller and Auditor-General attributes the positive changes to include the setting up of the XRB and the adoption of a new Accounting Standards Framework for all reporting entities, including the public sector, designed for financial reports to better meet user-needs. In response, the Finance and Expenditure Committee⁸ reported this as a "good news story". The Committee noted that the XRB has done well in its role as an independent standard setter, doing away with the "one size fits all" reporting mentality and allowing smaller entities to balance between the costs and benefits of general-purpose financial reporting. These changes mean that the public sector is now in a better position to report clearly and usefully on how it is performing. Clarifications were made to the definition of "public accountability" and the reference to Tier 1 and Tier 2 accounting requirements. These changes resulted from feedback from stakeholders and ensure the Accounting Standards Framework and its application remain appropriate.
<p>Ensure alignment with relevant legislative framework</p>	<p>Alignment of strategy and standards frameworks with legislative requirements</p> <ul style="list-style-type: none"> There were no legislative changes in the 2015-2016 financial year that required amendments to standards

⁷ <http://www.oag.govt.nz/2016/financial-reporting/docs/summary.pdf/view>.

The report is a follow-up to the Office of the Auditor-General's (OAG) 2009 report which raised particular concerns about the inappropriateness of public sector entities applying accounting standards that are intended for for-profit capital market entities.

⁸ https://www.parliament.nz/resource/en-NZ/51DBSCH_SCR69033_1/6d958a01c21d5c8737d34162a413e59c24b1fccc

<ul style="list-style-type: none"> • Consistency of standards frameworks with legislative frameworks • Timely reflection of legislative changes in XRB's standards 	<p>frameworks and the frameworks continue to be aligned with the relevant legislative frameworks.</p> <ul style="list-style-type: none"> • XRB continues to hold discussions with policy makers and other key stakeholders and make submissions on relevant consultation documents.
<p>Improved competition</p>	
<p>Ensure comparability</p> <ul style="list-style-type: none"> • Independent reports/studies on New Zealand's international competitiveness • Continuation of XRB's policy on influencing international boards • Number of requests for and timeliness of New Zealand-specific amendments to standards that are not related to legislative or standards frameworks • Responsiveness to and timeliness of standards to new (or amended) international standards 	<p>Comparability of New Zealand standards with international standards</p> <ul style="list-style-type: none"> • New Zealand continues to rank highly for the strength of its auditing and reporting standards. In the "Strength of Auditing and Reporting Standards" Index in the Global Competitiveness Report 2015-2016 by the World Economic Forum, New Zealand ranked 3rd out of 140 countries for the strength of its auditing and reporting standards (compared to 3rd out of 144 countries in 2014-2015). • The XRB continued with its policy of influencing international boards in 2015-2016, with the standards board members and/or staff attending, participating in and, in some instances, presenting to various international meetings and forums. • The XRB's policy of influencing the work of international boards also included hosting visits to New Zealand by international board members and/or key staff from the International Accounting Standards Board (IASB), the International Auditing and Assurance Standards Board (IAASB), the International Public Sector Accounting Standards Board (IPSASB), the International Integrated Reporting Council (IIRC) and the UK Financial Reporting Council (UK FRC). • The XRB and its two sub-Boards continue to make submissions to international boards on relevant governance, framework and standards consultation and due process documents.
<p>Ensure reduced cost of capital</p> <ul style="list-style-type: none"> • Independent comment/reports on New Zealand's competitive position or ranking attributable to accounting and assurance standards • Independent comment/reports on New Zealand's reaction to international reporting trends 	<p>Reduced cost of capital measures</p> <ul style="list-style-type: none"> • New Zealand for-profit entities are seen to be lagging behind international trends in not voluntarily integrating, connecting and disclosing non-financial information with performance information⁹. Non-financial information may include information on sustainability, diversity, business risks, corporate governance and relationships with stakeholders. • Academic research¹⁰ into disclosure of such information in a mandatory reporting setting, shows that integrating financial and non-financial information is positively associated with stock liquidity and firm value for for-profit entities. • A recent report into the review of corporate governance disclosures by listed and unlisted New Zealand entities¹¹ by

⁹ "NZ lags in global corporate reporting" (National Business Review 18 March 2016) – an interview with Paul Druckman, Chief Executive, IIRC.

¹⁰ http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2699409

¹¹ <http://fma.govt.nz/news/media-releases/work-to-do-on-corporate-governance-disclosure-fma-finds/>

	<p>the Financial Markets Authority (FMA) indicates that the quality of reporting on corporate governance matters could be improved.</p> <ul style="list-style-type: none"> Findings from research commissioned by the XRB into <i>Information Needs of Users of New Zealand Capital Markets Entity Reports</i>¹² also show a majority of users are interested in supplementary information that is currently absent in entity reports. Users suggest the inclusion of information about business strategies and future prospects, narratives that explain financial performance and position of a reporting entity, disclosure of expectations about future performance and better disclosure about segment reporting and reporting on sustainability.
Improved accountability	
<p>Ensure transparency</p> <ul style="list-style-type: none"> Independent comment/reports about transparency and understandability of reported corporate information Independent comment/reports about audit quality 	<p>Transparency of reported information</p> <ul style="list-style-type: none"> Findings from the XRB's research into <i>Information Needs of Users of New Zealand Capital Markets Entity Reports</i> show that most respondents find all information in financial statements to be useful: "all helps to build a picture". Overall, a significant majority of respondents use financial reports to make various types of decisions and most users are satisfied with the quality of current financial reports in meeting their information needs. All components of financial reports are perceived, on balance, to be useful, with only a quarter of respondents indicating that the financial statements contain information that is not useful to them.
<p>Ensure appropriateness</p> <ul style="list-style-type: none"> Responsiveness and timeliness of standards to legislative changes and stakeholder feedback Number of New Zealand requests for, and timeliness of, changes to standards Independent feedback from other regulatory bodies about the requirements of standards Findings from independent New Zealand user-needs research 	<p>Appropriateness of reported information</p> <ul style="list-style-type: none"> The report from the Controller and Auditor-General positively indicates that the financial reporting framework and standards are appropriate for public sector entities. We have not received any negative feedback from our regular meetings with the financial markets regulator about our accounting or assurance standards, particularly for for-profit entities. We are monitoring, together with Charities Services, the application of XRB accounting standards by registered charities, now into their first year of applying those standards.
<p>Ensure comparability and completeness</p> <ul style="list-style-type: none"> Findings from independent New Zealand user-needs research 	<p>Comparability and completeness of reported information</p> <ul style="list-style-type: none"> Findings from the XRB's research into <i>Information Needs of Users of New Zealand Capital Markets Entity Reports</i> show that most respondents find all information in financial statements to be useful. Other than some suggestions from

¹² <https://www.xrb.govt.nz/includes/download.aspx?ID=142955>

<ul style="list-style-type: none">• Independent comment/reports on stakeholder awareness of wider corporate reporting and non-financial reporting matters	users about supplementary information, no other major information gaps were identified.
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Output 1: Developing Financial Reporting Strategy	2015/16 Actual	2015/16 Budget	2014/15 Actual
Crown Revenue Allocated	\$661,500	@	@
Actual costs	\$477,083	@	@
Attributed Overhead costs and other revenue	\$135,881	@	@
Quantity			
Number of standards frameworks being monitored	4	4	4
Number of accounting standards frameworks being implemented	N/A	N/A	1 not for profit
Number of amendments to accounting standards Tier Strategy submitted to Minister for approval	No amendments required	As required, expected to be nil	0
Quality			
Accounting standards frameworks implemented in accordance with approved Tier Strategy	N/A	N/A	100% compliance
Standards frameworks monitoring ensures consistency with international convergence and Australian harmonisation strategy, and approved Tier Strategy	100% compliance	100% compliance	100% compliance
Amendments to Tier Strategy consistent with statutory requirements and consistent with the Government's trans-Tasman outcome goals (degree of consistency determined by the XRB Board)	100% compliance No amendments were submitted to the Minister for approval	100% compliance	100% compliance
Timeliness			
Monitoring of standards frameworks	Ongoing throughout the year	Ongoing throughout the year	Ongoing throughout the year
Implementation of standards frameworks	N/A	N/A	Ongoing throughout the year
Amendments to Tier Strategy	No amendments required	As required	No amendments required

® There are no 2015/2016 Budget or 2014/2015 Actual dollar amounts available as this is the first year the XRB is providing revenue and cost allocation information.

In addition to the above, the following submissions to consultations were also made during the year:

- To international standard setting boards or other international organisations: 3 (2014/15: 2)
- To domestic organisations: 2 (2014/15: 1)

Output 2: Developing and Issuing Accounting Standards	2015/16 Actual	2015/16 Budget	2014/15 Actual
Crown Revenue Allocated	\$2,734,200	@	@
Actual costs	\$2,022,796	@	@
Attributed Overhead costs and other revenue	\$561,639	@	@
Quantity			
Number of exposure drafts and other due process documents issued relating to implementing the new accounting standards framework	2	1	3
Number of standards and related documents issued relating to implementing the new accounting standards frameworks	4	3-4	48*
Number of exposure drafts and other due process documents relating to existing accounting standards suites issued (depending on the output of international boards)	26#	8-10	15#
Number of standards and related documents relating to existing accounting standards suites issued (depending on output of international boards)	13	14-15	18#
Number of projects undertaken on behalf of international accounting standard setters	2	1-2	3^
Quality			
Due process documents and standards reflect approved Tier Strategy (degree of compliance determined by NZASB)	100% compliance	100% compliance	100% compliance
Statutory due process requirements followed	100% compliance	100% compliance	100% compliance
Standards reflect relevant international standards with departures only to improve	100% compliance	100% compliance	100% compliance

quality (quality improvement determined by NZASB)			
For-profit standards harmonised with Australia where appropriate	100% compliance	100% compliance	100% compliance
Timeliness			
Due process documents and standards relating to the new accounting standards framework issued in accordance with timeline established by the Board (usually not less than 90 days)	100% compliance	100% compliance	100% compliance
Due process documents and standards relating to existing accounting standards suites issued in time for the commencement date to be no later than the international commencement date (where relevant)	100% compliance	100% compliance	100% compliance

® There are no 2015/2016 Budget or 2014/2015 Actual dollar amounts available as this is the first year the XRB is providing revenue and cost allocation information.

In addition to the above, the following submissions to consultations were also made during the year:

- To national or international standard setting boards: 10 (2014/15: 9)

During the financial year, the XRB ran two webinars reaching over 100 participants.

In addition, the XRB ran seven roadshow events reaching 346 participants.

The XRB also co-presented in eight other seminars and workshops organised by Charities Services.

Explanation of major variances

Variances resulted from greater than expected output from the international boards and meeting domestic requirements

Output 3: Developing and Issuing Auditing & Assurance Standards	2015/16 Actual	2015/16 Budget	2014/15 Actual
Crown Revenue Allocated	\$1,014,300	@	@
Actual costs	\$716,237	@	@
Attributed Overhead costs and other revenue	\$208,350	@	@
Quantity			
Number of exposure drafts and other due process documents relating to auditing & assurance standards issued (depending on output of international boards)	9#	2-4	13#
Number of auditing & assurance standards and related documents issued (depending on output of international boards)	13	12-15	5
Quality			
Statutory due process requirements followed	*1 instance of non-compliance	100% compliance	100% compliance
Standards reflect relevant international standards with departures only to improve quality (quality improvement determined by the NZAuASB)	100% compliance	100% compliance	100% compliance
Standards harmonised with Australia where appropriate	100% compliance	100% compliance	100% compliance
Timeliness			
Due process documents and standards issued in time for the commencement date to be no later than the international commencement date (where relevant)	100% compliance	100% compliance	100% compliance

@ There are no 2015/2016 Budget or 2014/2015 Actual dollar amounts available as this is the first year the XRB is providing revenue and cost allocation information.

In addition to the above, the following submissions to consultations were also made during the year:

- Submissions to national or international standard setting boards: 8 (2014/15: 6)

The XRB ran six roundtable events during the financial year reaching 56 participants and one webinar reaching 155 participants.

Explanation of major variances

Variance resulted from greater than expected output from the International Boards.

* Section 22(2) of the Financial Reporting Act 2013 (FRA Act) requires that the XRB must not issue a standard that is likely to require the disclosure of personal information unless the XRB has consulted with the Privacy Commissioner. The XRB inadvertently issued a revised auditor reporting standard prior to consulting with the Privacy Commissioner about the implications of the requirement to include the engagement partner's name in the revised auditor's report for FMC Reporting Entities considered to have a higher level of public accountability. This amendment introduced for those entities a long-term market practice of naming the engagement partner in Australian corporate and New Zealand public sector audit reports. The XRB subsequently consulted the Privacy Commissioner for his consideration about the requirement. The Privacy Commissioner indicated that he is satisfied that an appropriate balance between protecting privacy and providing further transparency to the users of the auditor's report has been achieved.



Part 4: Financial Statements

External Reporting Board

Statement of Responsibility

For the Year Ended 30 June 2016

In terms of the Crown Entities Act 2004, the Board is responsible for the preparation of the External Reporting Board's financial statements and the Statement of Performance, and for the judgements made in them.

The Board is responsible for any year end performance information provided by the External Reporting Board under section 19A of the Public Finance Act 1989.

The Board has the responsibility for establishing, and has established and maintained, a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting.

In the Board's opinion, these financial statements and the Statement of Performance fairly reflect the financial position and operations of the External Reporting Board for the year ended 30 June 2016.

For the External Reporting Board
13 October 2016



Graeme R Mitchell
Chairman



Michele Embling
Deputy Chair

External Reporting Board

Statement of Comprehensive Revenue and Expense

For the Year Ended 30 June 2016

	Notes	Actual 2016 \$'000	Budget 2016 \$'000	Actual 2015 \$'000
Revenue				
Revenue from the Crown		4,410	4,410	4,410
Interest received		51	70	77
Other income		1	0	0
		4,462	4,480	4,487
Expenses				
Personnel costs		2,154	2,396	2,087
Fees to board members	(1)	643	600	560
General operating costs		291	350	289
Travel		401	539	378
Contributions to IASB & IPSASB		300	300	300
Premises expenses		175	157	170
Depreciation and amortisation	(2,7,8)	55	45	53
Website / IT costs		70	75	76
Miscellaneous costs		54	115	12
Professional fees		9	25	0
Audit fees		22	26	23
		4,174	4,628	3,948
Surplus/(Deficit) and Total Comprehensive Revenue and Expense		288	(148)	539

Explanations of major variances to budget are provided in Note 19.

The Statement of Accounting Policies and the Notes to the Financial Statements form part of and are to be read in conjunction with the Statement of Comprehensive Revenue and Expense.

External Reporting Board

Statement of Financial Position

As at 30 June 2016

	Notes	Actual 2016 \$'000	Budget 2016 \$'000	Actual 2015 \$'000
Equity				
Contributed Capital		725	725	725
Accumulated Surpluses:				
Opening accumulated surplus		1,709	1,309	1,170
Current year surplus / (deficit) and total comprehensive revenue and expense		288	(148)	539
Total Equity		2,722	1,886	2,434
Current Assets				
Cash at bank		2,750	1,803	2,429
Receivables		14	10	12
Prepayments		21	15	24
Investments	(3)	211	202	202
Total Current Assets		2,996	2,030	2,667
Current Liabilities				
Payables	(4)	407	355	410
Employee entitlements	(5)	104	55	73
Rent incentive	(6)	9	9	9
Total Current Liabilities		520	419	492
Working Capital		2,476	1,611	2,175
Non-Current Assets				
Property Plant & Equipment	(7)	225	255	245
Intangible assets	(8)	33	20	23
Total Non-Current Assets		258	275	268
Non-Current Liabilities				
Provisions	(9)	12	0	0
Rent incentive	(6)	0	0	9
Total Non-Current Liabilities		12	0	9
Total Net Assets		2,722	1,886	2,434

Explanations of major variances to budget are provided in Note 19.

The Statement of Accounting Policies and the Notes to the Financial Statements form part of and are to be read in conjunction with the Statement of Financial Position.

External Reporting Board

Statement of Movements in Equity

For the Year Ended 30 June 2016

	Notes	Actual 2016 \$'000	Budget 2016 \$'000	Actual 2015 \$'000
Equity as at 1 July		2,434	2,034	1,895
Total Comprehensive Revenue and Expense		288	(148)	539
Equity as at 30 June		2,722	1,886	2,434

The Statement of Accounting Policies and the Notes to the Financial Statements form part of and are to be read in conjunction with the Statement of Movements in Equity.

External Reporting Board

Statement of Cash Flows

For the Year Ended 30 June 2016

Notes	Actual 2016 \$'000	Budget 2016 \$'000	Actual 2015 \$'000
Cash Flows from Operating Activities			
<i>Cash was provided from:</i>			
Revenue from the Crown	4,410	4,410	4,410
Interest received	51	70	76
	4,461	4,480	4,486
<i>Cash was disbursed to:</i>			
Payments for employees	2,121	2,396	2,075
Payments to suppliers	1,666	1,929	1,523
Contributions to international standards boards	300	300	300
	4,087	4,625	3,898
Net Cash Flow from Operating Activities	374	(145)	588
Cash flows from Investing Activities			
<i>Cash was disbursed to:</i>			
Investment	9	0	8
Purchase of Property Plant and Equipment	20	20	15
Intangibles	24	0	30
	53	20	53
Net Cash Flow from Investing Activities	(53)	(20)	(53)
Net Increase/Decrease in Cash	321	(165)	535
Add Opening Cash Balance	2,429	1,968	1,894
Closing Cash Balance	2,750	1,803	2,429

The Statement of Accounting Policies and the Notes to the Financial Statements form part of and are to be read in conjunction with the Statement of Cash Flows

External Reporting Board

Statement of Accounting Policies

For the Year Ended 30 June 2016

(a) Reporting Entity

The XRB was established by the Financial Reporting Act 1993, with continued existence under the Financial Reporting Act 2013. All members of the XRB Board are appointed by the Governor General on the recommendation of the Minister of Commerce.

The XRB is an Independent Crown Entity under the Crown Entities Act 2004. It is responsible for financial reporting strategy, and preparing and issuing both accounting and auditing & assurance standards. This includes all the functions relating to the setting of accounting standards for entities required to apply or opt to apply External Reporting Board accounting standards, and auditing & assurance standards for auditors providing assurance required by statute.

The XRB has designated itself a public benefit entity for financial reporting purposes.

The financial statements for the XRB are for the year ended 30 June 2016 and were approved by the XRB Board on 13 October 2016.

(b) Basis of Preparation

Statement of Compliance

The financial statements of the XRB have been prepared in accordance with the requirements of Section 154 of the Crown Entities Act 2004, which includes the requirement to comply with generally accepted accounting practice ("GAAP"). Specific disclosures under section 152 of the Crown Entities Act 2004 are disclosed in the notes to the financial statements.

The financial statements have been prepared on a going concern basis and the accounting policies have been applied consistently throughout the period.

These financial statements have been prepared in accordance with Tier 2 PBE Standards and disclosure concessions have been applied. The criteria under which the XRB is eligible to report in accordance with Tier 2 PBE Standards are:

- The XRB does not have public accountability as defined in XRB A1 *Accounting Standards Framework (For-profit Entities plus Public Sector Public Benefit Entities plus Not-for-profit Entities Update) (XRB A1 (FP Entities + PS PBEs + NFPs Update))*; and
- The XRB has total expenses between \$2 million and \$30 million.

These financial statements comply with PBE Standards.

Measurement base

The accounting principles recognised as appropriate for the measurement and reporting of results and financial position on a historical cost basis have been applied.

Functional, presentation currency and rounding

The financial statements are presented in New Zealand dollars. The functional currency of the Board is New Zealand dollars. All values are rounded to the nearest thousand dollars (\$'000) unless otherwise specified.

Changes in accounting policies

There have been no changes in accounting policies during the financial year.

(c) **Summary of Significant Accounting Policies**

Revenue

Revenue is measured at the fair value of consideration received or receivable. Revenue is recognised when earned and is reported in the financial period to which it relates.

Revenue from the Crown

The XRB is primarily funded through revenue received from the Crown, which is restricted in its use for the purpose of the Board meeting its objectives as specified in the Statement of Intent.

The XRB considers that there are no conditions attached to the Crown funding and as such it is recognised as revenue at the point of entitlement.

Interest

Interest income is recognised using the effective interest rate method.

Goods and Services Tax (GST)

All items in the financial statements are presented exclusive of GST, except for receivables and payables, which are presented on a GST inclusive basis. Where GST is not recoverable as an input tax, it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, Inland Revenue is included as part of receivables or payables in the statement of financial position.

Income Tax

The XRB is exempt from the payment of income tax. Accordingly, no provision for income tax has been made.

Budget figures

The budget figures are derived from the Statement of Performance Expectations as approved by the XRB Board at the beginning of the financial year. The budget figures have been prepared in accordance with GAAP, using accounting policies that are consistent with those adopted by the XRB for the preparation of these financial statements.

Operating Leases

Leases that do not transfer substantially all the risks and rewards incidental to ownership of an asset to the XRB are classified as operating leases. Payments are recognised as an expense on a straight line basis over the term of the lease in the Statement of Comprehensive Revenue and Expense when payable. Lease incentives received are recognised in the surplus as a reduction of rental expense over the lease term. The XRB has operating leases on its two premises at 50 Manners Street, Wellington and 55 Shortland Street, Auckland.

External Reporting Board

Notes to the Financial Statements

For the year ended 30 June 2016

1. Fees to board members

The Fees to board members include the following fees paid to XRB Board members.

	Meetings Attended 2016	Board Fees 2016 \$	Other Fees 2016 \$	Total 2016 \$
<i>Total meetings held for the year</i>	6			
Simon Carey	6/6	18,134	5,673	23,807
Neil Cherry	6/6	14,327	46,350	60,677
Annabel Cotton	6/6	15,598	0	15,598
Michele Embling	5/6	13,226	0	13,226
Kimberley Crook	6/6	8,406	175,402	183,808
Graeme Mitchell	6/6	15,496	51,822	67,318
Jane Taylor	6/6	16,813	0	16,813
Fergus Welsh	6/6	0	0	0
Total Board Fees		102,000	279,247	381,247

	Meetings Attended 2015	Board Fees 2015 \$	Other Fees 2015 \$	Total 2015 \$
<i>Total meetings held for the year</i>	6			
Simon Carey	6/6	15,594	401	15,995
Neil Cherry	6/6	15,420	46,069	61,489
Annabel Cotton	6/6	12,860	0	12,860
Kimberley Crook	3/6	8,450	122,850	131,300
Michele Embling	4/6	9,543	2,281	11,824
Graeme Mitchell	6/6	17,985	64,532	82,517
Jane Taylor	6/6	15,352	16,586	31,938
Fergus Welsh	3/6	0	0	0
Total Board Fees		95,204	252,719	347,923

Fergus Welsh is a state servant and accordingly is not remunerated as a Board member.

Other fees are payments made in relation to time spent on other matters over and above attendance at XRB Board meetings. In the case of Kimberley Crook and Neil Cherry, this mostly reflects their roles as Chairs of the NZASB and NZAuASB respectively. In the case of Graeme Mitchell, it reflects his role as XRB Chairman. In the case of Simon Carey, this reflects his participation on the Nominations Committee.

The Other Fees paid to Graeme Mitchell, Kimberley Crook and Neil Cherry also include time spent as a member of the relevant Australian board (FRC, AASB and AuASB respectively) and international board membership (Kimberley Crook- ASAF).

Board Committee Remuneration:

The XRB has two Committees – the New Zealand Accounting Standards Board (NZASB) and the New Zealand Auditing and Assurance Board (NZAuASB). The remuneration of members of these boards (other than members who are also members of the XRB Board) is as follows:

NZASB	Meetings Attended 2016	Board Fees 2016 \$	Other Fees 2016 \$	Total 2016 \$
<i>Total meetings held for the year</i>	8			
Stephanie Allan	8/8	18,134	0	18,134
Carolyn Cordery	8/8	22,049	0	22,049
Kimberley Crook	8/8	0	0	0
Clyde D'Souza	7/8	18,134	0	18,134
Karl Hickey	8/8	21,465	0	21,465
Lyn Hunt	7/8	17,161	4,215	21,376
Robert Nelson	7/8	18,158	2,594	20,752
Kris Peach (AASB)	6/8	0	0	0
Angela Ryan	7/8	0	0	0
Greg Schollum	4/8	0	0	0
Total Committee Fees		115,101	6,809	121,910

NZASB	Meetings Attended 2015	Board Fees 2015 \$	Other Fees 2015 \$	Total 2015 \$
<i>Total meetings held for the year</i>	8			
Stephanie Allan	7/8	16,586	0	16,586
Carolyn Cordery	8/8	19,275	0	19,275
Kimberley Crook	8/8	0	0	0
Clyde D'Souza	8/8	19,156	0	19,156
Karl Hickey	7/8	17,374	0	17,374
Robert Nelson	6/8	14,135	642	14,777
Lyn Hunt	8/8	19,275	1,927	21,202
Kris Peach (AASB)	4/8	0	0	0
Angela Ryan	6/8	0	0	0
Greg Schollum	8/8	0	0	0
Jane Taylor	7/8	0	0	0
Total Committee Fees		105,801	2,569	108,370

The AASB representative on the NZASB is not remunerated.

Both Angela Ryan and Greg Schollum are state servants and as such are not remunerated. Greg Schollum resigned from the NZASB effective 31 December 2015.

Kimberley Crook and Jane Taylor's fees are included in amounts reported for XRB Board members in the first two tables of this Note.

Other fees are payments made in relation to time spent on other matters over and above attendance at board meetings.

NZAuASB	Meetings Attended 2016	Meeting Fees 2016 \$	Other Fees 2016 \$	Total 2016 \$
<i>Total meetings held for the year</i>	7			
Robert Buchanan	7/7	18,158	2,756	20,914
Neil Cherry	7/7	0	0	0
Craig Fisher	6/7	15,888	5,350	21,238
Pat Heslin	6/7	15,564	0	15,564
Merran Kelsall (AUASB)	4/7	0	0	0
John Kensington	7/7	19,431	0	19,431
Chong Lim	5/7	0	0	0
Marje Russ	7/7	18,134	6,287	24,421
Karen Shires	6/7	16,861	0	16,861
Rowena Sinclair	6/7	15,540	5,506	21,046
Total Committee Fees		119,576	19,899	139,475

NZAuASB	Meetings Attended 2015	Meeting Fees 2015 \$	Other Fees 2015 \$	Total 2015 \$
<i>Total meetings held for the year</i>	6			
Robert Buchanan	6/6	15,420	642	16,062
Neil Cherry	5/6	0	0	0
Craig Fisher	6/6	15,420	0	15,420
Chong Lim	6/6	0	0	0
Merran Kelsall (AUASB)	5/6	0	0	0
Pat Heslin	5/6	12,850	0	12,850
John Kensington	6/6	13,352	0	13,352
Marje Russ	6/6	15,986	2,227	18,213
Karen Shires	6/6	15,420	0	15,420
Rowena Sinclair	5/6	12,816	0	12,816
Total Committee Fees		101,264	2,869	104,133

Neil Cherry's fees are included in amounts reported for XRB Board members in the first table of this Note. Chong Lim is a state servant and accordingly is not remunerated as a Board member. The Australian Auditing and Assurance Standards Board (AUASB) representative on the NZAuASB is not remunerated by the XRB.

Other fees are payments made in relation to time spent on other matters over and above attendance at board meetings.

2. Depreciation and Amortisation

Accounting Policy

Depreciation:

Depreciation is calculated so as to write off the cost over the expected useful lives of the assets from the date they are brought into use.

Straight line depreciation is charged at the following rates:

- Furniture and Fittings 10.5%
- Plant and Equipment 30%
- Property Improvements 7%
- Computer Equipment 40%

Amortisation:

The carrying value of an asset with a finite life is amortised on a straight line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date the asset is derecognised. The amortisation charge for the financial year is expensed in the surplus.

The useful lives and associated amortisation rates of major classes of intangible assets have been estimated as follows:

- Software 40%

	Actual 2016 \$'000	Actual 2015 \$'000
Depreciation and Amortisation		
Depreciation	41	40
Amortisation	14	13
Total Depreciation and Amortisation	55	53

3. Investments

Accounting Policy

Investments in bank deposits are initially measured at the amount invested. After initial recognition, investments in bank deposits are measured at amortised cost using the effective interest rate method, less any provision for impairment.

	Actual 2016 \$'000	Actual 2015 \$'000
BNZ Term Deposit	211	202
Total Investments	211	202

The term deposit matures on 9 November 2016 and carries an interest rate of 3.74% p.a. The carrying amount of term deposits approximates their fair value.

4. Payables

Accounting Policy

Payables are initially measured at face value. After initial recognition, they are measured at amortised cost using the effective interest rate method.

	Actual 2016 \$'000	Actual 2015 \$'000
Creditors	147	81
Accruals	29	72
GST payable	231	257
Total Payables	407	410

Payables are non-interest bearing and are normally settled on 30-day terms, therefore the carrying value of payables approximates their fair value.

5. Employee Entitlements

Accounting Policy

Short term employee benefits

Employee benefits that are due to be settled within 12 months after the end of the period in which the employee renders the related service are measured based on accrued entitlements at current rates of pay. These include salaries and wages accrued up to balance date and annual leave earned but not yet taken at balance date.

A liability and expense are recognised for performance incentives where there is a contractual obligation.

Superannuation schemes

Defined contribution schemes

Obligations for contributions to KiwiSaver are accounted for as defined contribution superannuation scheme and are recognised as an expense in the surplus or deficit as incurred. This was \$51,209 (2015: \$55,411).

	Actual 2016 \$'000	Actual 2015 \$'000
Holiday Pay Accrual	57	56
Accrued Salaries and Wages	47	17
Total Employee Entitlements	104	73

6. Rent Incentive

Current Liability

	Actual 2016 \$'000	Actual 2015 \$'000
Rent Incentive	9	9
Rent Incentive	9	9

Non-current Liability

	Actual 2016 \$'000	Actual 2015 \$'000
Rent Incentive	0	9
Rent Incentive	0	9

The rent incentive is as follows:

- The lease of premises at 50 Manners Street, Wellington expires 30 June 2017 with two further rights of renewal of three years each. The first 6 months of this lease was rent free.

7. Property Plant & Equipment

Accounting Policy

Property, plant and equipment consists of the following asset classes; furniture and fittings, plant and equipment, property improvements and computer equipment.

The cost of an item of property, plant and equipment is recognised as an asset only when it is probable that future economic benefits or service potential associated with the item will flow to the XRB and the cost of the item can be measured reliably.

Purchases of property, plant and equipment are initially recorded at cost.

Items of property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may overstate its recoverable service amount.

Costs incurred subsequent to the initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to the XRB and the cost of the item can be measured reliably.

The costs of day to day servicing of property, plant and equipment are recognised in the surplus or deficit as they are incurred.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are reported net in the surplus or deficit.

2015/16

\$'000	Furniture and Fittings	Plant And Equipment	Property Improvements	Computer Equipment	Total
Cost					
Opening Balance	123	48	217	126	514
Additions	0	0	0	20	20
Disposals	0	0	0	(19)	(19)
Closing Balance	123	48	217	127	515
Accumulated Depreciation					
Opening Balance	50	47	57	115	269
Depreciation	14	1	15	11	41
Disposals	0	0	0	(20)	(20)
Closing Balance	64	48	72	106	290
Carrying Amounts					
At 30 June 2016	59	0	145	21	225
At 30 June 2015	73	1	160	11	245

8. Intangible Assets

Accounting Policy

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. The XRB does not capitalise any internal costs incurred in the development of software for internal use.

Costs associated with maintaining computer software are recognised as an expense when incurred.

The XRB has commenced a rebuild of its website during the financial year. The costs to date associated with this project, which will generate future service potential, have been capitalised as an intangible asset.

	Actual 2016 \$'000	Actual 2015 \$'000
Cost		
Opening Balance 1 July	50	20
Additions	24	30
Disposals	0	0
Closing Balance 30 June	74	50
Accumulated Amortisation		
Opening Balance 1 July	27	14
Amortisation	14	13
Disposals	0	0
Closing Balance 30 June	41	27
Carrying Amount 30 June	33	23

The intangible assets comprise software licenses and website development costs capitalised. The website will not be subject to amortisation until it is available for use which is estimated to be January 2017.

9. Provisions

	Actual 2016 \$'000	Actual 2015 \$'000
Provision for Make Good	12	0
Total Provisions	12	0

The XRB is required to make good any damage caused to the two office premises that it leases and remove any fittings and fixtures installed by the XRB. In the case of the Wellington lease, XRB has two further rights of renewal which affects the timing of the outflow, however, the Auckland lease expiry is 30 June 2017. The XRB is currently negotiating to renew the lease and as such a provision has been made for make good.

10. Financial Instruments

Accounting Policy

The XRB is party to financial instruments as part of its normal operations. These financial instruments include bank accounts, short term deposits, receivables and payables. All financial instruments are recognised in the Statement of Financial Position and all revenues and expenses in relation to financial instruments are recognised in the Statement of Comprehensive Revenue and Expense.

All financial assets are classified as loans and receivables. All financial liabilities are classified as financial liabilities measured at amortised cost.

11. Employee Remuneration

Remuneration Range	Actual 2016	Actual 2015
\$100,000 - \$109,999	3	2
\$120,000 - \$129,999	1	1
\$130,000- \$139,999	1	1
\$140,000 - \$149,999	0	0
\$150,000 - \$159,999	2	2
\$160,000 - \$169,999	1	2
\$170,000 - \$179,999	1	2
\$180,000 - \$189,999	1	0
\$190,000- \$199,999	1	1
\$220,000- \$229,999	0	1

12. Related Party Information

The XRB is an independent Crown entity as defined by the Crown Entities Act 2004.

All related party transactions have been entered into on an arm's length basis.

Related party disclosures have not been made for transactions with related parties that are within a normal supplier or client / recipient relationship on terms which are no more or less favourable than those that it is reasonable to expect XRB would have adopted in dealing with a party at arm's length in the same circumstances.

Further, transactions with other Government agencies (for example Government departments, Crown Entities and SOEs) are not disclosed as related party transactions when they are consistent with the normal operating arrangements between Government agencies and undertaken on the normal terms and conditions for such transactions.

Key Management Personnel

Nil transactions were entered into during the year with key management personnel.

Key Management Personnel Compensation

	Actual 2016 \$'000	Actual 2015 \$'000
XRB Board meeting fees (remuneration to XRB Board members)	167	166
Full time equivalent members	0.5	0.5
Salaries and other short term employee benefits	698	767
Full time equivalent employees	4	4
Total Key Management Personnel Compensation	865	933

Key management personnel includes the XRB Board, the Chief Executive and three Directors. The Board meeting fees included above only includes payments relating to work completed

for the XRB Board- where members of the XRB Board are also on other boards such as Kimberley Crook (NZASB) and Neil Cherry (NZAuASB), these fees are excluded.

No XRB Board members received compensation or other benefits in relation to cessation (2015: nil).

13. Severance Payments

No severance payments were made to employees during the year (2015: nil).

14. Indemnity Insurance

The XRB has professional indemnity insurance at 30 June 2016 of \$1,000,000. (2015: \$1,000,000).

15. Operating Lease Commitments

	Actual 2016 \$'000	Actual 2015 \$'000
Not later than one year	164	150
Later than one year and not later than five years	1	150
Later than five years	0	0
Total Operating Lease Commitments	165	300

The XRB has entered into the following non-cancellable lease agreements which were effective 1 July 2011:

- The lease of premises at 55 Shortland Street, Auckland expires 30 June 2017. The first 6.5 months of this lease was rent free. This lease has no further rights of renewal.
- The lease of premises at 50 Manners Street, Wellington expires 30 June 2017. The first 6 months of this lease was rent free. This lease has two further rights of renewal to 30 June 2023.

16. Capital Commitments

The XRB has capital commitments for the development of its website at balance date. The total contracted committed amount is \$59,674 (2015: nil).

17. Contingent Liabilities

The XRB has no material contingent liabilities (2015: nil).

18. Events after the Balance Sheet Date

There were no significant events after the balance sheet date. (2015: nil).

19. Explanation of significant variances against budget

Statement of Comprehensive Revenue and Expense

Interest Received

Interest income is lower than budget due to lower than expected interest rates earned.

Personnel Costs

The budget allowed for a full complement of staff for the whole financial year. Various vacancies existed for varying periods during the year. Provision was also made for our part time staff to go to full time and this did not eventuate during the financial year.

Fees to board members

The budget for meeting fees includes the XRB Board and its two Committees, the NZASB and the NZAuASB. The unfavourable variance primarily relates to additional time spent by the Chair of the XRB Board in an Acting Chief Executive role for three months and also for

additional unbudgeted time required by Kimberley Crook to attend and prepare for Accounting Standards Advisory Forum (ASAF) meetings, which is a new appointment in this financial year.

General Operating Costs

This expenditure is under budget as the costs relating to constituency engagement programs were much less than anticipated.

Travel

Travel costs were less than budgeted primarily as the budget included international visits by the previous Chief Executive and senior staff. However, it was necessary to cancel these trips.

Miscellaneous Expenses

This expenditure relates to our fees paid for our research agenda. The research was budgeted to commence and conclude within the current financial year. However, the work on the research did not commence until May 2016.

Professional Fees

Professional fees comprises amounts paid to technical contractors. The XRB has contracted additional technical expertise into the audit and assurance staff team in this current financial year.

Statement of Financial Position

Cash at Bank

Cash balances are higher than budget due to the reduced expenditure incurred during the financial year.

Intangibles

The increase in intangibles is due to the commencement of the upgrade project for the website.

Payables

The increase in payables is due to an increase in accounts payable at year end.

Employee Entitlements

The main increase in employee entitlements is due to an accrual for the Chief Executive's contractual performance payment. A similar accrual was not required in the prior year as the role was vacant at year end. In addition, there was a higher salaries accrual at year end than the prior year due to higher staffing levels and four days accrual versus two days accrual in the prior year.

Provisions

This current year we have included a provision for make good on our two leased premises for the first time. Both leases require make good on termination of the leases. Our Auckland premises expires in June 2017- we expect the lease to be renewed, however, we have created a provision for make good for the space. The Wellington premises has rights of renewal until 2023 and as such we have created a small provision for make good of this space which will be increased over time until the lease expiry in 2023.

Independent Auditor's Report

To the readers of the External Reporting Board's financial statements and performance information for the year ended 30 June 2016

The Auditor-General is the auditor of the External Reporting Board (XRB). The Auditor-General has appointed me, Stephen Lucy, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and the performance information, including the performance information for an appropriation, of the XRB on her behalf.

Opinion on the financial statements and the performance information

We have audited:

- the financial statements of the XRB on pages 48 to 64, that comprise the statement of financial position as at 30 June 2016, the statement of comprehensive revenue and expense, statement of movements in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the XRB on pages 17 to 25 and 33 to 43.

In our opinion:

- the financial statements of the XRB:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2016; and
 - its financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with the Public Benefit Entity Standards Reduced Disclosure Regime.
- the performance information:
 - presents fairly, in all material respects, the XRB's performance for the year ended 30 June 2016, including:
 - for each class of reportable outputs:
 - its standards of performance achieved as compared with forecasts included in the statement of performance expectations for the financial year;
 - its actual revenue and output expenses as compared with the forecasts included in the statement of performance expectations for the financial year;

- what has been achieved with the appropriation; and
 - the actual expenses or capital expenditure incurred compared with the appropriated or forecast expenses or capital expenditure.
- complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 13 October 2016. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board and our responsibilities, and explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and the performance information are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and the performance information. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and the performance information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the XRB's financial statements and performance information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the XRB's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board;
- the appropriateness of the reported performance information within the XRB's framework for reporting performance;
- the adequacy of the disclosures in the financial statements and the performance information; and
- the overall presentation of the financial statements and the performance information.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and the performance information. Also, we did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board

The Board is responsible for preparing financial statements and performance information that:

- comply with generally accepted accounting practice in New Zealand;
- present fairly the XRB's financial position, financial performance and cash flows; and
- present fairly the XRB's performance.

The Board's responsibilities arise from the Crown Entities Act 2004 and the Public Finance Act 1989.

The Board is responsible for such internal control as it determines is necessary to enable the preparation of financial statements and performance information that are free from material misstatement, whether due to fraud or error. The Board is also responsible for the publication of the financial statements and the performance information, whether in printed or electronic form.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and the performance information and reporting that opinion to you based on our audit. Our responsibility arises from the Public Audit Act 2001.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

In addition to the audit, one employee of the Auditor-General has been a member of the New Zealand Auditing and Assurance Standards Board (NZAuASB), one of the XRB's standards setting Boards. Until 31 December 2015, the current Deputy Auditor-General was a member of the New Zealand Accounting Standards Board (NZASB), the XRB's other standards setting Board. From 1 July 2016, another employee of the Auditor-General has been a member for the NZASB. In addition, the Auditor-General is a member of the External Reporting Advisory Panel (XRAP) of XRB. None of the NZASB, the NZAuASB or the XRAP has any influence over the governance, operations or accountability of the XRB. The employees, the Deputy Auditor-General and the Auditor-General provide their advice at no cost to the XRB.

Other than the audit, and involvement with the NZASB, the NZAuASB and the XRAP, we have no relationship with or interests in the XRB.



S B Lucy
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand

Appendix: Board Members

Members of the External Reporting Board during 2015-16

- Simon Carey, Partner, Grant Thornton, Christchurch (term expires 16 August 2019).
- Neil Cherry, Deputy Chief Executive, Finance, Technology and Commercial – Department of Corrections, Wellington (term expires 30 June 2016).
- Annabel Cotton, Investment Analyst and Accountant, Hamilton (term expires 30 June 2016).
- Kimberley Crook, Partner, EY, Auckland (term expires 31 January 2020).
- Michele Embling, Partner, PwC, Auckland (term expires 16 August 2019).
- Graeme R Mitchell, Chartered Accountant, Wellington (Chairman from 1 March 2014; term expires 28 February 2019).
- Jane Taylor, Lawyer and Company Director, Queenstown (term expires 8 December 2018).
- Fergus Welsh, Chief Financial Officer, The Treasury, Wellington (term expires 31 January 2020).

Members of the New Zealand Accounting Standards Board during 2015-16

- Stephanie Allan, Group Financial Controller, Fonterra Co-operative Group Ltd, Auckland.
- Carolyn Cordery, Associate Professor, School of Accounting and Commercial Law, Victoria University of Wellington, Wellington.
- Kimberley Crook, Partner, Ernst & Young, Auckland (Chair).
- Clyde D'Souza, Principal of D'Souza Associates, Wellington (term expires 30 June 2016).
- Karl Hickey, Senior Finance Manager, ANZ National Bank Ltd, Wellington (term expires 30 June 2016).
- Lyn Hunt, Partner, PwC, Auckland (appointed 1 July 2014).
- Robert Nelson, Retired, formerly Financial Controller, Auckland Council, Auckland (retired 30 June 2016)
- Kris Peach, Chair and CEO, Australian Accounting Standards Board, Melbourne.
- Angela Ryan, Senior Accounting Policy Analyst, The Treasury, Wellington (Deputy Chair).
- Greg Schollum, Deputy Auditor-General (Accounting and Auditing Policy), Wellington (retired 31 December 2015).

Members of the New Zealand Auditing and Assurance Standards Board during 2015-16

- Robert Buchanan, Lawyer, Wellington.
- Neil Cherry, Deputy Chief Executive, Finance, Technology and Commercial – Department of Corrections, Wellington (Chair) (term expires 30 June 2016).
- Craig Fisher, Chairman, RSM Chartered Accountants, Auckland.
- Pat Heslin, retired Partner, Deloitte, Dunedin.
- Merran Kelsall, Chairman Australian Auditing and Assurance Standards Board, Melbourne.
- John Kensington, Partner, KPMG, Auckland (term expires 30 June 2016).
- Chong Lim, General Manager, Audit New Zealand, Wellington.
- Marje Russ, Director Tonkin & Taylor, Auckland.
- Karen Shires, Partner, PwC, Wellington.
- Rowena Sinclair, Senior Lecturer, School of Business and Law, AUT University, Auckland.

Further information about the Members of the XRB, NZASB and NZAuASB is available at www.xrb.govt.nz.

