
OUTPUT AGREEMENT

between

THE MINISTER OF COMMERCE

and

THE EXTERNAL REPORTING BOARD

for the period

1 JULY 2011 – 30 JUNE 2012

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1. Parties to the Output Agreement

This Output Agreement is between the Minister of Commerce (the Minister) and the External Reporting Board (the Board). The Board is a continuation of the Accounting Standards Review Board.¹

2. Background

The Board is a body corporate established under section 22 of the Financial Reporting Act 1993 (the Act). It is a Crown Entity under the Crown Entities Act 2004.

Section 24 of the Act describes the functions of the Board.

- (a) To prepare and, if it thinks fit, issue financial reporting standards for the purposes of - the Act, the Crown Entities Act 2004, the Public Finance Act 1989, the Local Government Act 2002, or any Act that requires a person to comply with this Act as if that person were a reporting entity.
- (b) To prepare and, if it thinks fit, issue auditing and assurance standards for - the purposes of this Act, the Auditor Regulation Act 2011, any enactment that requires a person to comply with those standards, any rules or codes of ethics of an association of accountants that require its members to comply with those standards, or any other purpose approved by the Minister by notice in writing to the Board.
- (c) To develop and implement strategies for the issue of specified standards in order to provide a framework for the Board's overall direction in the setting of standards (including developing and implementing a strategy for tiers of financial reporting in accordance with sections 34 to 34D of the Act).
- (d) To give directions or guidance as to the accounting policies that have authoritative support within the accounting profession in New Zealand.
- (e) To prepare and, if it thinks fit, issue amendments to any specified standards.
- (f) To liaise with international or national organisations that exercise functions that correspond with, or are similar to, those conferred on the Board.

Note the functions of the Board in (a) above include the function of preparing and, if the Board thinks fit, issuing financial reporting standards that relate to prospective, summary, or interim financial information.

The Minister and the Board agree that to successfully fulfil these functions the Board should contribute to the development of international accounting standards and auditing and assurance standards to ensure that New Zealand's financial reporting regime is commensurate with international norms.

The activities of the Board are funded by an appropriation of public money included in Vote: Commerce, therefore the Minister has responsibility under the Crown Entities Act 2004 for the financial performance of the Board.

¹ Unless the context otherwise requires, every reference to the Accounting Standards Review Board in any enactment, agreement, deed, instrument, application, notice, or other document, in force immediately prior to 1 July 2011, must be read, with all necessary modifications, as a reference to the External Reporting Board.

3. Purpose and Scope

The objective of this Output Agreement is to establish expectations of performance for the outputs to be provided by the Board. This Agreement enables the Minister to monitor and hold the board accountable for its performance.

This Agreement defines the outputs the Board has agreed to supply, its performance attributes, the costs, and the terms and conditions.

It sets out the understanding of the Minister and the Board on:

- The outputs to be supplied by the Board;
- The quantity, quality, timeliness and costs of these outputs;
- The level of funding the Minister will provide to the Board, and the level of third party funding;
- The ways in which the Minister will monitor the Board's performance in the delivery of those outputs; and
- Other matters relevant to the relationship between the Minister and the Board.

4. Term

This Agreement commences on 1 July 2011 and ends on 30 June 2012.

The Agreement may be amended at any time during its term by agreement in writing between the Minister and the Board.

Should a new Output Agreement not be agreed by 30 June 2012, this agreement will remain in force until such time as a new Agreement is signed.

5. Independence of the Board

The Minister acknowledges that the Board is required to act independently in carrying out its statutory functions and exercising its powers and nothing in this Agreement is to limit that.

The Minister will not require or seek to require the Board, in relation to its functions, to do, or refrain from doing, a particular act, or bring about a particular result in respect of any particular person or persons.

6. The Outputs to be Purchased by the Minister

The Minister will purchase the following outputs from the Board:

- Developing a financial reporting strategy, including tier structures;
- Preparing and issuing accounting standards; and
- Preparing and issuing auditing and assurance standards.

As part of the delivery of these outputs the Board will deliver the following internal or intermediate outputs:

- Contribute to the international work associated with developing accounting standards and auditing and assurance standards to promote consistency between the New Zealand financial reporting regime and international norms; and
- Participate in trans-Tasman co-ordination initiatives, including the Trans-Tasman Accounting and Auditing Standards Advisory Group (TTAASAG), and the appointment of Board members as members of the Australian Financial Reporting Council, Australian Accounting Standards Board, and the Australian Auditing and Assurance Standards Board.

7. Outputs and Performance Measures

Output Class	2011/12 Forecast
<i>Description</i>	
Financial reporting and auditing and assurance standard setting and associated strategy setting functions	
<i>Cost (\$000)</i>	4,410
<i>Revenue from the Crown (\$000)</i>	4,410

Output 1: Developing Financial Reporting Strategy	2011/12 Forecast
<i>Quantity</i> Finalised financial reporting framework Finalised reporting tiers structure	1 issued 1 submitted for Ministerial approval
<i>Quality</i> Financial reporting framework is consistent with the Government's trans-Tasman outcome goals Tier structure is established in accordance with statutory requirements	100% consistent 100% compliance
<i>Timeliness</i> Financial reporting framework Tier structure	31 December 2011 Within statutory deadline: 31 March 2012

Output 2: Preparing and Issuing Accounting Standards	2011/12 Forecast
<i>Quantity</i> Number of International Accounting Standards Board standards and related documents issued Number of other accounting standards and related documents issued	All relevant: expected to be 5-10 15-25

<p>Quality</p> <p>Statutory due process requirements followed</p> <p>Standards reflect relevant international standards with departures only to improve quality</p>	<p>All standards</p> <p>All standards</p>
<p>Timeliness</p> <p>Standards issued in time for the commencement date to be no later than the international commencement date (where relevant)</p>	<p>All standards</p>

<p>Output 3: Preparing and Issuing Auditing and Assurance Standards</p>	<p>2011/12 Forecast</p>
<p>Quantity</p> <p>Number of initial standards issued on establishment</p> <p>Number of new International Auditing and Assurance Standards Board standards and related documents issued</p> <p>Number of other assurance standards and related documents issued</p>	<p>45-50</p> <p>All relevant: expected to be 4-8</p> <p>2-5</p>
<p>Quality</p> <p>Statutory due process requirements followed</p> <p>Standards reflect relevant international standards with departures only to improve quality</p>	<p>All standards</p> <p>All standards</p>
<p>Timeliness</p> <p>Standards issued in time for the commencement date to be no later than the international commencement date</p>	<p>All standards</p>

8. Accountability for Outputs

The Board will deliver its outputs in accordance with the performance standards and measures set out in clause 7. If it becomes known to the Board that it will be, or is, unable to meet any of the performance measures and standards specified in clause 7, the Board shall immediately advise the Ministry of Economic Development (the Ministry).

9. Funding

Funding will be provided through an operating appropriation of \$4,410,000 (excluding GST). The total appropriation (including GST) will be disbursed, on behalf of the Crown, by the Ministry to the XRB through four equal quarterly payments in advance at the beginning of each quarter. To meet the agreed requirement that a large portion of this funding is fiscally neutral, an XRB levy will come into force from 1 February 2012 as a mechanism for cost recovery from third party revenue streams. New Zealand Companies Office will collect the levy on behalf of the Crown.

A one-off capital investment of \$370,000 will also be provided in 2011/12. The capital appropriation will be paid as a one-off lump-sum at the beginning of the financial year. This amount will combine with the \$825,000 capital injection in 2010/11 to cover the cost of transitioning the Board to physical offices with permanent staff and establishing a necessary level of working capital. Any outstanding amount not required for these purposes will be retained as reserves. Any reserves held by the Board can only be used in ways that contribute to its outputs and are consistent with its statutory functions.

The Board is expected to manage its finances so that the operating result for the year is a surplus, which once earned will be added to reserves. The Board will notify the Minister at an early opportunity if it expects the operating result for the year will be a deficit.

The Minister and the Board will consult concerning the action that should be taken if either or both of them consider, at any time during the year, that the level of funding is insufficient to allow the Board to deliver its outputs in accordance with the performance standards and measures specified in clause 7.

10. Minister's Adviser

The Board recognises that the Minister has appointed the Ministry to:

- Advise on issues arising from the Minister's responsibilities in relation to the Board; and
- Monitor the delivery by the Board of the outputs specified in clause 6 in accordance with the performance standards and measures specified in clause 7 of this Agreement.

For this purpose, the Board will liaise with and provide to the Ministry the information specified in the First Schedule to this Agreement.

11. Reporting

The Board will provide the Minister and the Ministry with a six monthly report in final form before 13 February 2012. This report will contain the information specified in the First Schedule to this Agreement.

The Board shall, as required by section 150 of the Crown Entities Act 2004, prepare and provide to the Minister its annual report for the 2011/12 financial year.

The Board will, in accordance with section 139 of the Crown Entities Act prepare a draft statement of intent for the financial year beginning on 1 July 2012 and the two following financial years, and provide it to the Minister within the timeframes agreed to between the XRB and the Ministry.

The Ministry will liaise with the Board on any implications for reporting which arise from policy decisions on the review of the Act.

In addition to formal reporting processes, the Board agrees to keep the Ministry and the Minister informed about the Board's performance as necessary and appropriate. The Board will also provide to the Minister such information as the Minister deems necessary.

Furthermore, where a policy matter, concern or other issue relating to the Board may have implications for the Minister or the Government or may be controversial in any way, the Board shall immediately advise the Ministry so that the Minister can be briefed on that policy matter or issue.

12. Value-for-Money

The Board has noted Government expectations regarding value-for-money. The Board's value-for-money approach for 2011/12 will focus on:

- Managing within budget;
- Continuing to develop and measure the contribution its outputs make to Government's desired outcomes and objectives; and
- Developing an organisational strategy consistent with statutory requirements and desired outcomes.

13. Ministerial Speeches and Parliamentary Questions

The Board will supply the Ministry, on request, with information:

- To enable the Ministry to prepare Ministerial briefings and draft speech notes in relation to the Board (normally within ten working days of a request);
- To enable the Ministry to complete the estimates for the purposes of the Government's annual budget;
- To enable the Minister to respond to Parliamentary questions in relation to the Board; and
- To enable the Minister, within ten working days:
 - To deal with Ministerial correspondence in relation to the Board; and
 - To deal with select committee inquiries in relation to the Board.

14. Expectations

Informed by the Government's Enduring Letter of Expectations (dated 22 December 2008) and the 2011/12 Letter of Expectations, the Board is committed to meeting expectations and achieving the outcomes it influences, the impacts it seeks to have, and its strategic development programmes as set out in the Statement of Intent 2011-2014.

The Board will maintain policies and procedures that comply with the standards set out in the code of conduct for the state services *Standards of Integrity and Conduct* issued by the State Services Commissioner under section 57 of the State Sector Act 1988.

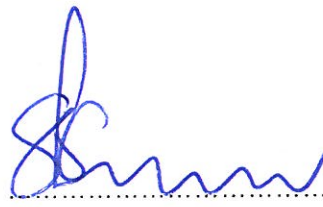
15. Preparation of Output Agreement for 2012/13

The Board will, in cooperation with the Ministry, provide the Minister with a draft output Agreement for the 2012/13 financial year by 1 July 2012.



Kevin Simpkins
Chair
External Reporting Board

Date signed: 24/8/11



Hon. Simon Power
Minister of Commerce

Date signed: 15/8/11

FIRST SCHEDULE

INFORMATION TO BE INCLUDED IN SIX MONTHLY REPORTS

The Board will supply the Minister and the Ministry with six monthly reports on the Board's performance. These reports are not intended to be public documents. Any request for release of these reports will be dealt with under the Official Information Act 1982. The reports will contain:

1. Summary of output performance to date. This will include financial and non-financial actual performance as compared to the specification contained in clause 7.
2. Summary of capital expenditure to date.
3. The projected level of operations for the rest of the financial year. This will primarily relate to any anticipated variations in activity or performance from that specified in clause 7 to this Agreement.
4. Any need to notify the Minister with regard to a projected deficit as stipulated in clause 9 of this Agreement.
5. Any significant issues arising from the work of Audit New Zealand (including any significant audit management letter points).
6. An outline of, and update on, key initiatives that the Board is undertaking to develop its internal capability as set out in its Statement of Intent and/or in response to specific performance expectations; and
7. Any fiscal risks to the Crown and/or any risks that could limit the effectiveness of the Board in carrying out its statutory functions.

Recognising that the Board produces an Annual Report, the second six monthly report may be replaced by providing a (near-to-final) copy of the draft annual report (unaudited) as provided to Audit New Zealand. The Board will provide these reports to the Ministry no later than six weeks after the end of the relevant period.

Under the Crown Entities Act, the Board must complete its Annual Report for 2011/12 by 31 October 2012.

SECOND SCHEDULE

OPERATING BUDGET

The Board will support the Government's financial planning process in accordance with the following indicative timeframes based on timetables issued by Treasury. Confirmed timetables and/or any changes will be formally advised to the Board by the Ministry and will not require amendment to this agreement.

1. By early **October 2011**, the Board advises the Minister of the amount that the Board considers it will need to spend on its functions in the next financial year. This is also the deadline for submissions for any increase in the amount allocated for the current year's expenditure.
2. By late **January 2012**, the Minister advises the Board of the response to its advice. That is, approval in principle may be given to a level of expenditure for the next financial year and a response given to any proposed increase in the current financial year.
3. By early **February 2012**, (subject to Treasury timetables), the Board confirms to the Ministry the baseline data to be included in both Supplementary Estimates for the current year and the Estimates process for the next financial year.
4. By late **February 2012**, (subject to Treasury timetables), the Ministry finalises draft submissions to the Minister of Finance concerning both the Supplementary Estimates and Estimates processes, for the consideration of the Minister.
5. By early **March 2012**, (subject to Treasury timetables), the Minister and the Board finalise discussion on the terms of specific performance measures for the outputs for which the Board is accountable, and the Ministry notifies these to the Treasury.