



Te Kāwai Ārahi Pūrongo Mōwaho

Statement of Performance Expectations

**For the period
1 July 2016 to 30 June 2017**

April 2016

Prepared in accordance with section 149C of the Crown Entities Act 2004

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Statement of Responsibility

This Statement of Performance Expectations has been prepared in accordance with the requirements of section 149C of the Crown Entities Act 2004. The purpose of the Statement of Performance Expectations is to promote the public accountability of the External Reporting Board (XRB) by:

- enabling the responsible Minister to participate in the process of setting the XRB's annual performance expectations;
- enabling the House of Representatives to be informed of those expectations; and
- providing a base against which the XRB's actual performance for the year can be assessed.

The Board is responsible for the content of this Statement of Performance Expectations, which comprises the reportable outputs (as specified in the Statement of Forecast Service Performance) and the Prospective Financial Statements for the year, including the assumptions on which they are based, and for the judgements used in preparing them.

The Prospective Financial Statements have been prepared in accordance with generally accepted accounting practice in New Zealand.

As the XRB is an Independent Crown Entity, the Minister may not direct the XRB to have regard to, or give effect to, a government policy relating to the XRB's standard setting functions and as a result no such matters are included in this Statement of Performance Expectations.

In accordance with section 149I of the Crown Entities Act 2004, the XRB has consulted with the Minister of Commerce in the preparation of this Statement.



Graeme Mitchell

Chairman

14 April 2016



Michele Embling

Deputy Chair

14 April 2016

1. Introduction

1.1 Purpose of the Statement of Performance Expectations

This document outlines the key aspects of the performance the External Reporting Board (XRB) is expecting to deliver in the 2016/17 financial year.

In accordance with the requirements of the Crown Entities Act 2004, the Statement of Performance Expectations covers two main dimensions of performance:

- The “reportable” classes of outputs that the XRB will deliver in 2016/17 which are funded in part or whole by the Crown (the Crown’s purchase interest) – as the XRB is fully funded by the Crown, these are all the XRB’s outputs; and
- The prospective financial performance for the XRB for 2016/17 (the Crown’s ownership interest).

1.2 Overview of the XRB

The XRB is an Independent Crown Entity with continued existence established under the Financial Reporting Act 2013 and subject to the Crown Entities Act 2004.

The functions of the XRB are prescribed by the Financial Reporting Act 2013 and comprise:

- developing and implementing an overall strategy for financial reporting standards and auditing and assurance standards (including developing and implementing tiers of financial reporting);
- preparing and issuing accounting standards, including where applicable “non-GAAP standards” for entities entitled by Law to use cash accounting, and authoritative pronouncements;
- preparing and issuing auditing and assurance standards, including the professional and ethical standards that will govern the professional conduct of assurance providers; and
- liaising with national and international organisations that exercise functions that correspond with, or are similar to, those conferred on the XRB.

The Board itself comprises up to nine members appointed by the Governor General on the recommendation of the Responsible Minister. Information about the current members of the XRB can be found at www.xrb.govt.nz.

The Board has established two standard setting boards¹, one that has responsibility for accounting standard setting (the New Zealand Accounting Standards Board) and the other with responsibility for auditing and assurance standard setting (the New Zealand Auditing and Assurance Standards Board). This structure is designed to not only ensure that the technical resources are available and that standard setting is undertaken in accordance with best practice, but also to enhance functional equivalence with Australia. These part-time, remunerated standards boards are appointed by the XRB Board, and comprise around ten suitably qualified and experienced persons with a diversity of

¹ In terms of the Crown Entities Act 2004, these are Committees of the Board.

perspective. Information about the current members of the standard setting boards can be found at www.xrb.govt.nz.

The XRB Board itself is responsible for general governance of the organisation, overall financial reporting strategy, standards strategy, and oversight of the standard setting boards.

A staff team based in Wellington and Auckland provides technical and logistical support to the three Boards.

1.3 Strategic Context

The strategic intentions of the XRB, which provided the strategic context for the 2016/17 Statement of Performance Expectations, are set out in the XRB's Statement of Intent for the 2014-19 period which was published in 2014.² In summary, those strategic intentions are as follows:

- Establishing a period of relative 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;
- Undertaking 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 two broad (and interconnected) approaches: relationships and participation;
- Continuing to enhance constituency engagement and support; 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.

² The Statement of Intent is enduring and covers the current as well as the previous period. The Statement is available at http://www.xrb.govt.nz/Site/about_us/Accountability_Documents.aspx

2. Reportable Classes of Outputs

2.1 Reportable Classes of Outputs

The XRB has one reportable class of outputs i.e. one class of outputs funded by appropriation or levy. The specification of this class of outputs is specified in the table below. A specification of the individual outputs that make up the class of outputs is provided in the Statement of Forecast Service Performance.

Output Class: 2016/17 Forecast

Description of Output Class

Financial reporting and auditing & assurance standards setting for the purposes of promoting the quality of financial reporting

What the Class is Intended to Achieve

The development and issuing of accounting and auditing & assurance standards and associated documents that are converged with international standards and harmonised with Australian standards where applicable.

How the Performance of the Class will be Assessed

Performance will be assessed by the extent to which the accounting and auditing & assurance standards on issue in New Zealand are converged with international standards and harmonised with Australian standards where applicable.

Revenue from the Crown (\$000)	4,410
Revenue from Others (\$000)	50
Cost (\$000)	4,831

The XRB does not have any reportable class of outputs for which an exemption has been granted under section 149F of the Crown Entities Act 2004.

The XRB does not intend to supply any class of outputs in the 2016/17 financial year that is not a reportable class of outputs.

2.2 Statement of Forecast Service Performance for the Year Ended 30 June 2017

Output 1: Financial Reporting Strategy	2015/16 Estimate	2016/17 Forecast
Quantity		
Number of standards frameworks being monitored	4	3
Number of amendments to accounting standards Tier Strategy submitted to Minister for approval	No amendments required	As required: expected to be 0
Quality		
Standards frameworks monitoring ensures consistency with international convergence and Australian harmonisation strategy, and approved Tier Strategy	100% consistent	100% consistent
Amendments to Tier Strategy consistent with statutory requirements and consistent with the Government's trans-Tasman outcome goals (degree of consistency determined by XRB Board)	No amendments required- 100% consistent	No amendments required – 100% consistent
Timeliness		
Monitoring of standards frameworks	On-going throughout the year	On-going throughout the year
Amendments to Tier Strategy	No amendments required	As required

Output 2: Preparing and Issuing Accounting Standards	2015/16 Estimate	2016/17 Forecast
Quantity		
Number of exposure drafts and other due process documents issued relating to implementing the accounting standards frameworks	2	2
Number of standards and related documents issued relating to implementing the accounting standards frameworks	4	2
Number of exposure drafts and other due process documents relating to existing accounting standards suites issued (mainly dependent on the output of International Boards)	28-34	13-19
Number of standards and related documents relating to existing accounting standards suites issued (mainly dependent on the output of International Boards)	11-17	19-25
Number of projects undertaken on behalf of international accounting standard setters	2	2
Quality		
Due process documents and standards reflect approved Tier Strategy (degree of compliance determined by NZASB)	100% compliance	100% compliance
Statutory due process requirements followed	100% compliance	100% compliance
Standards reflect relevant international standards with departures only to improve quality (quality improvement determined by NZASB)	100% compliance	100% compliance
For-profit standards harmonised with Australia where appropriate	100% compliance	100% compliance
Timeliness		
Due process documents and standards relating to the accounting standards framework issued in accordance with timeline established by the Board (usually no less than 90 days)	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

Output 3: Preparing and Issuing Auditing and Assurance Standards	2015/16 Estimate	2016/17 Forecast
Quantity		
Number of exposure drafts and other due process documents relating to auditing and assurance standards issued (mainly dependent on the output of International Boards)	9-15	3-6
Number of auditing and assurance standards and related documents issued (mainly dependent on the output of International Boards)	15-18	5-9
Quality		
Statutory due process requirements followed	1 instance of non-compliance	100% compliance
Standards reflect relevant international standards with departures only to improve quality (quality improvement determined by NZAuASB)	100% compliance	100% compliance
Standards harmonised with Australia where appropriate	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

3. Prospective Financial Statements for the Year Ended 30 June 2017

3.1 Introduction

These prospective financial statements have been prepared in accordance with generally accepted accounting practice for public sector public benefit entities. Their purpose is to facilitate consideration by Parliament of the planned performance of the External Reporting Board. The prospective financial statements set out the XRB's activities and planned performance. The use of this information for other purposes may not be appropriate. Readers are cautioned that actual results are likely to vary from the information presented and that the variation may be material.

These prospective financial statements have been prepared on the basis of assumptions as to future events that the XRB reasonably expects to occur as at the date the information was prepared. It is not intended that this information will be updated.

3.2 Assumptions

The following assumptions have been used in preparing these prospective financial statements:

- The XRB will continue to operate in its current structure and form.
- The XRB's statutory functions will remain unchanged.
- Revenue from the Crown of \$4,410,000 will be available for the 2016/17 year.
- There will be no change to premises occupancy.
- Externally driven costs will increase by no more than the rate of inflation.
- The website redevelopment will receive approval from the Board. These prospective financial statements include an estimated amount of \$300,000. We have also assumed that this asset would be amortised over a four year period.
- There will be no unexpected external events (such as a natural disaster) that will require significant operating or capital expenditures to be incurred.
- The Board has acted in a fiscally prudent manner in relation to the forecast deficit for 2016/17 which will be funded from reserves to enable the XRB to fund strategic initiatives.

3.3 Statement of Accounting Policies

(a) Reporting Entity

The XRB is an Independent Crown Entity under the Crown Entities Act 2004 and is responsible for financial reporting strategy, and preparing and issuing both accounting and auditing and assurance standards. The XRB was established on 1 July 2011.

The XRB has designated itself as a Public Benefit Entity (PBE) for financial reporting purposes.

(b) Statement of Compliance

These prospective financial statements have been prepared in accordance with the requirements of the Crown Entities Act 2004, which includes the requirement to comply with generally accepted accounting practice in New Zealand (NZ GAAP).

The prospective financial statements have been prepared in accordance with Tier 2 PBE Accounting Standards and disclosure concessions have been applied. This includes PBE FRS 42 Prospective Financial Statements.

The criteria under which the XRB is eligible to report in accordance with Tier 2 PBE Accounting Standards are:

- The XRB does not have public accountability as defined in XRB A1 Application of the Accounting Standards Framework and;
- The XRB has total expenses between \$2million and \$30million

These prospective financial statements comply with PBE Accounting Standards.

These prospective financial statements have been prepared on a going concern basis and the accounting policies set out below have been applied consistently to all periods presented in these prospective financial statements.

The prospective financial statements were approved by the XRB Board on 14 April 2016. The XRB Board is responsible for the prospective financial statements presented, including the assumptions underlying the prospective financial statements and all other disclosures.

(c) 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.

(d) Functional and Presentation Currency

The prospective financial statements are presented in New Zealand dollars. The functional currency of the XRB is New Zealand dollars.

(e) 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 Board 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 Board 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 method.

Cash at Bank

Cash at bank includes cash on hand and deposits held at call with banks. 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.

Receivables

Receivables are initially measured at face value less any provision for impairment. Impairment of a receivable is established when there is objective evidence that the XRB will not be able to collect amounts due according to the original terms of the receivable.

Property, Plant & Equipment

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 External Reporting Board 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 fair value.

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 External Reporting Board 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 / (deficit) as they are incurred.

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%

Intangible Assets

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. The External Reporting Board 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.

Website development costs are capitalised as new functionality is created.

The carrying value of an intangible 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 that the asset is derecognised. The amortisation charge for each financial year is recognised in the surplus / (deficit). Straight line amortisation is charged on intangibles at the following rates:

- Computer Software 40%
- Website development 25%

Payables

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

Goods and Services Tax (GST)

All items in the prospective 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 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 (IR) is included as part of receivables or payables in the Prospective Statement of Financial Position.

The net GST paid to, or received from IR is classified as an operating cash flow in the Prospective Statement of Cash Flows.

Income Tax

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

Financial Instruments

The Board 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 Prospective Statement of Financial Position and all revenues and expenses in relation to financial instruments are recognised in the Prospective Statement of Comprehensive Revenue and Expense.

Operating Leases

Leases that do not transfer substantially all the risks and rewards incidental to ownership of an asset to the External Reporting Board are classified as operating leases. Payments are recognised as an expense on a straight line basis over the term of the lease in the Prospective 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 External Reporting Board has operating leases on its two premises at 50 Manners Street, Wellington and 55 Shortland Street, Auckland.

(f) Changes in Accounting Policies

There have been no changes in accounting policies.

External Reporting Board

Prospective Statement of Comprehensive Revenue and Expense

For the year ending 30 June 2017

	2015/16 Estimated \$000	2016/17 Forecast \$000
Revenue from the Crown	4,410	4,410
Interest	59	50
Total Revenue	4,469	4,460
Personnel Costs	2,224	2,526
Board Members' Fees	672	685
Travel	343	380
General Operating Costs	429	437
Contributions to IASB and IPSASB	300	300
Premises Expenses	175	178
Research expenses	78	200
Depreciation	55	125
Total Expenses	4,276	4,831
Net Surplus/(Deficit)	193	(371)
Other Comprehensive Revenue and Expenses	0	0
Total Comprehensive Revenue and Expenses	193	(371)

The Statement of Accounting Policies forms part of and is to be read in conjunction with the Prospective Statement of Comprehensive Revenue and Expense

External Reporting Board

Prospective Statement of Financial Position

As at 30 June 2017

	2015/16 Estimated \$000	2016/17 Forecast \$000
ASSETS		
Current Assets		
Cash at Bank	2,794	2,189
Prepayments	25	25
Receivables	12	12
	<u>2,831</u>	<u>2,226</u>
Non-Current Assets		
Property, Plant and Equipment	229	454
	<u>229</u>	<u>454</u>
Total Assets	<u>3,060</u>	<u>2,680</u>
LIABILITIES		
Current Liabilities		
Payables	425	425
Rent Accruals	9	0
	<u>434</u>	<u>425</u>
Non-Current Liabilities	0	0
Total Liabilities	<u>434</u>	<u>425</u>
NET ASSETS	<u>2,626</u>	<u>2,255</u>
EQUITY		
Capital Contribution from the Crown	725	725
Retained Earnings	1,901	1,530
TOTAL EQUITY	<u>2,626</u>	<u>2,255</u>

The Statement of Accounting Policies forms part of and is to be read in conjunction with the Prospective Statement of Financial Position

External Reporting Board

Prospective Statement of Movements in Equity

For the year ending 30 June 2017

	2015/16 Estimated \$000	2016/17 Forecast \$000
Equity as at 1 July	2,433	2,626
Total Recognised Revenues and Expenses	193	(371)
Equity as at 30 June	2,626	2,255

The Statement of Accounting Policies forms part of and is to be read in conjunction with the Prospective Statement of Movements in Equity

External Reporting Board

Prospective Statement of Cash Flows

As at 30 June 2017

	2015/16 Estimated \$000	2016/17 Forecast \$000
Cash Flows from Operating Activities		
Cash was provided from:		
Revenue from the Crown	4,410	4,410
Interest	58	50
	<u>4,468</u>	<u>4,460</u>
Cash was distributed to:		
Employee Costs	2,217	2,535
Suppliers	1,773	1,915
Contribution to IASB and IPSASB	300	300
	<u>4,290</u>	<u>4,750</u>
Net Cash Flow from: Operating Activities	178	(290)
Cash Flows from Investing Activities		
Cash was distributed to:		
Purchase of Property, Plant and Equipment	16	315
	<u>16</u>	<u>315</u>
Net Cash Flow from: Investing Activities		
Cash Flows from Financing Activities		
Sale of fixed assets	1	0
	<u>1</u>	<u>0</u>
Net Cash Flow from: Financing Activities	(15)	(315)
Net (Decrease) / Increase in Cash	163	(605)
Add Opening Cash Balance	2,631	2,794
Closing Cash Balance	<u>2,794</u>	<u>2,189</u>

The Statement of Accounting Policies forms part of and is to be read in conjunction with the Prospective Statement of Cash Flows

4. Explanation of Prospective Financial Statements

The prospective financial statements assume a level of activity and cost structure similar to that for the 2015/16 financial year except in the following areas:

- **Operating expenses:**
 - Compared to 2015/16, an increased amount has been allowed for personnel costs. 2015/16 was an abnormal year with the vacancy of a Chief Executive for three months and a vacancy in the Deputy Director of Accounting Standards role for a period of three months, both roles have now been appointed. In addition we have budgeted for our part time staff to become full time staff members should they be able to; and
 - The timing of user- needs research projects has been reviewed and we expect to complete one project in the period to 30 June 2016 and two projects in the 2016/17 financial year. These research initiatives were adopted in the XRB 2014-19 Strategic Plan (see the XRB 2014-19 Statement of Intent for an explanation of these initiatives).
 - Depreciation is significantly higher as the Board has approved the redevelopment of the XRB website after five years of operation of the inaugural website. This redevelopment will be funded from retained earnings and is still in the preliminary planning phase.

The operating forecast for the year is a deficit of \$371,000 and results primarily from the decision to allocate additional resources, as well as divert some existing resources, to fund initiatives resulting from the XRB's 2014-19 Strategic Plan. These initiatives, which include user-needs research and greater emphasis on contributing to and influencing the work of the international boards, are considered to be critical to ensuring the effectiveness of the standards framework developed over during the 2011-14 period and the achievement of the XRB's outcome goal.

The deficit will be funded from retained earnings (i.e. surpluses from previous years) and related cash reserves as part of a carefully planned five-year expenditure strategy established by the Board. No additional funding or appropriation is being requested and contributed capital will not be affected by the deficit.

