



**EXTERNAL REPORTING BOARD**

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*Te Kāwai Ārahi Pūrongo Mōwaho*

# **Briefing for the Incoming Minister of Commerce**

January 2017

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External Reporting Board

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## Part A: Overview of the Organisation

### The External Reporting Board

The External Reporting Board (XRB) is an Independent Crown Entity, initially established under the Financial Reporting Act 1993, with continued existence under Section 11 of the Financial Reporting Act 2013. As a Crown Entity, the XRB is subject to the Crown Entities Act 2004.

The XRB came into existence on 1<sup>st</sup> July 2011 when it was reconstituted from the Accounting Standards Review Board (ASRB) following the 2011 amendments to the Financial Reporting Act 1993.

The XRB is an Independent Crown Entity, and this status recognises that the XRB must operate, and must be seen to operate, independently from the Crown in carrying out its standard setting functions.

### XRB board members

Under the Financial Reporting Act 2013<sup>1</sup>, 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 for the coming year are listed in the Appendix 1 to this Briefing for the Incoming Minister.

### Legal functions of the XRB

The XRB's functions are prescribed by Section 12 of the Financial Reporting Act 2013<sup>2</sup> 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, including where applicable "non-GAAP standards" for entities entitled by Law to use cash accounting, and authoritative pronouncements;
- 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.

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<sup>1</sup> 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.

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

## The XRB's outcomes and outputs

The Government's overarching outcome goal is: *Building a more productive and competitive economy.*

In the Government's Business Growth Agenda 2015 – *Towards 2025*, one of the intermediate outcomes flowing from this overarching goal is: *the attracting of high quality investment into all parts of New Zealand.*

A precondition for attracting high quality investment is effective public accountability and good corporate governance. This applies in all sectors (for-profit, public sector and not-for-profit) and in this sense "business" needs to be viewed in a wider multi-sectoral context 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 or other stakeholders. To that end, the main purpose of financial reports is to promote the accountability of the senior 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 in the case of government 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 relevant, non-financial elements) that informs the decision-making of stakeholders is therefore important to achieving effective public accountability and good corporate governance, and through them high quality investment into all parts of New Zealand (in the broadest sense). 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).

High quality financial reporting can only be achieved 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 the resulting information can be understood by users; and the 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, including the Business Growth Agenda, outcome goals.

Accordingly, the XRB's **outcome goal** is:

*The establishment of accounting and assurance standards that:*

- *engenders confidence in New Zealand financial reporting*
- *assists entities to compete internationally, and*
- *enhances entities' accountability to stakeholders.*

The XRB is seeking to influence this outcome goal through the delivery of three outputs:

- Developing a financial reporting strategy, accounting framework, assurance framework and thought leadership;
- preparing and issuing accounting standards, authoritative notices, other international pronouncements and New Zealand guidance; and
- preparing and issuing auditing & assurance standards, other international pronouncements and New Zealand guidance.

These outputs, together with performance measures, are specified in our Statement of Intent and Output Agreement. We have developed a chart showing how we create value. This chart is included at Appendix 2 of this Briefing for the Incoming Minister.

## Liaising with international standard setters

An important element of the XRB's work is liaising with international standard setters. This is an integral part of all three outputs and is important for a number of reasons.

Key amongst these is the fact that the XRB has a policy of adopting international standards in New Zealand where appropriate. This is consistent with the XRB's outcome goal and is particularly important for entities operating in the international capital markets where being able to assert compliance with International Financial Reporting Standards (IFRS) is generally considered essential for international competitiveness. Such an approach also reduces domestic standard setting costs.

The main international standard setting bodies the XRB interacts with, and the standards they produce, are as follows:

- The International Accounting Standards Board (IASB): International Financial Reporting Standards (IFRS);
- The International Public Sector Accounting Standards Board (IPSASB): International Public Sector Accounting Standards (IPSAS);
- The International Auditing and Assurance Standards Board (IAASB): International Standards on Auditing (ISA);
- The International Ethical Standards Board for Accountants (IESBA): International Code of Ethics.

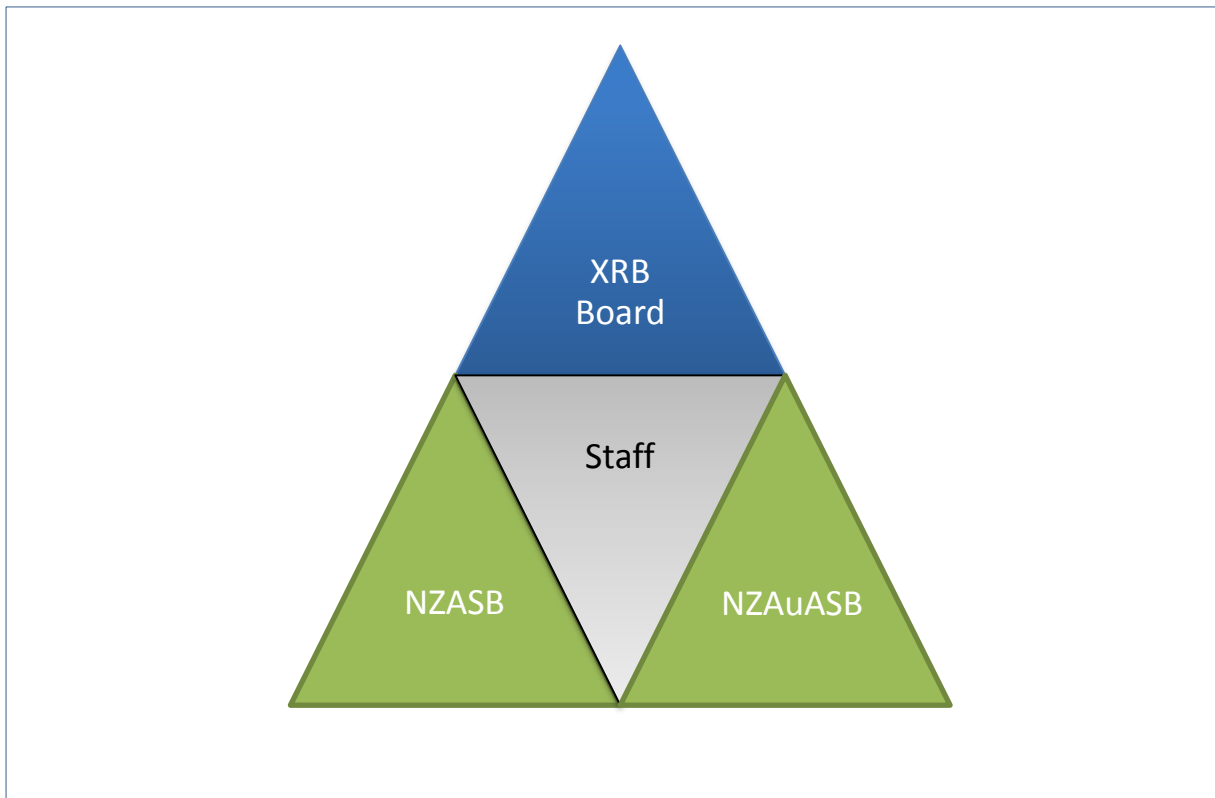
New Zealanders have key positions on the IASB (Vice-Chair), IPSASB (Deputy Chair for 2017) and IAASB (Public Member).

## Organisational structure

The XRB Organisation consists of the XRB Board, two standard setting boards (the NZASB and the NZAuASB) and a small staff team (currently 17) as depicted in Figure 1.

**The XRB Board** comprises up to 9 members and is appointed by the Governor-General on the recommendation of the responsible Minister (the Minister of Commerce). The members of the XRB are all part-time and are remunerated in accordance with rates determined by the Remuneration Authority. Information about the current XRB Board members is attached at Appendix 1. The XRB Board is responsible for general governance of the organisation, overall financial reporting strategy, standards strategy, and oversight of the standard setting boards.

**Figure 1: Structure of the XRB Organisation**



**The New Zealand Accounting Standards Board (NZASB)** is a Committee of the XRB appointed in accordance with Schedule 5 of the Crown Entities Act 2004 and operates under delegated authority. It is responsible for developing and issuing accounting standards for entities required to comply with generally accepted accounting practice (GAAP).

The NZASB comprises around ten suitably qualified and experienced persons with a diversity of perspective. The members of the NZASB are appointed by the XRB and are all part-time and remunerated in accordance with rates determined by the Remuneration Authority.

**The New Zealand Auditing and Assurance Standards Board (NZAuASB)** is a Committee of the XRB appointed in accordance Schedule 5 of the Crown Entities Act 2004 and it also operates under delegated authority. It is responsible for developing and issuing auditing and assurance standards.

The NZAuASB comprises around ten suitably qualified and experienced persons with a diversity of perspective. The members of the NZAuASB are appointed by the XRB and are all part-time and remunerated in accordance with rates determined by the Remuneration Authority.

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.

## Funding

The XRB is funded by a gross appropriation. Since its establishment in 2011 the appropriation has been set at \$4.410 million.

In accordance with its Statement of Performance Expectations, the XRB is expected to manage its finances so that the operating result for the 2016/2017 year is a small deficit.

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.

## Levies

As part of its decisions relating to the establishment of the XRB, the Government decided to introduce a levy on relevant third parties. The XRB has no involvement in the setting or collection of the levy (even though it is called the "XRB levy") – this is all undertaken by the Ministry of Business, Innovation and Employment.



## Part B: Strategic Focus and Priorities

### Introduction

The XRB's main strategic focus is 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 past 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.

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 the application of the accounting and assurance frameworks.

Significant work to develop an accounting standard on Service Performance Reporting is continuing. 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 is also continuing the development of an auditing standard on Service Performance Reporting, with the aim of issuing an exposure draft in 2017.

### **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 on implementing the research programme continues 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 continue as follows: Other Assurance Engagements; Common Transactions of Incorporated Societies; The Use of Alternative Performance Measures; 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. The XRB staff contribute to projects being undertaken by the IPSASB and IASB. Also:

- The XRB continues supporting the contribution of the New Zealand member on the IPSASB. The New Zealand member is 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 attend 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 hosts 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 participates 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.

The XRB organise many seminars, webinars, podcasts and publish articles and newsletters on a wide range of matters that are the subject of exposure drafts or discussion papers. The XRB Board also hold some general discussions with key constituent groups about broader financial reporting matters.

Recently 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 several 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 last year was the first-year New Zealand registered charities were 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, meets twice during each year and actively contributes ideas to XRB Board deliberations on various matters<sup>3</sup>.

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<sup>3</sup> 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.

Both the XRB Board and its two standard setting sub-boards continue to hold the majority of the non-governance part of their meetings in open session. Members of the public can attend as observers during the open sessions and each board hold at least one meeting in Auckland during each year to allow the constituency in the Auckland region to attend if they wish (the remaining meetings are 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](http://www.xrb.govt.nz)) as are the relevant minutes.

Significant enhancements to the XRB website are being made to assist users to more easily navigate the website. The website is our key communication platform for disseminating all our work, and we are hoping to have the new website operational at the end of March 2017.

## **Maintaining capability and ensuring value for money**

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

The organisation currently has a full complement of staff. 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 procurement programme and successfully utilising the GETS tendering website for the contract to redevelop the website.

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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.

# Appendix 1: External Reporting Board –

## Members as at 1 January 2017

### **Simon Carey**

Simon Carey is a Partner at Grant Thornton New Zealand Ltd and works within the PHB and Corporate Finance division. He is an experienced Chartered Accountant and business adviser with demonstrated expertise across privately held businesses, government and public interest entities in Australia and New Zealand.

Simon has specialised industry experience in transport and logistics and contracting. He specialises in capital raising, business valuations, expert witness and litigation support, turnaround, re-structuring and consulting work.

### **Prof. Michael Bradbury**

Michael Bradbury is a professor in Accounting at Massey University. He has taught at the University of Auckland, and has had visiting appointments at the Sloan School of Management, Massachusetts Institute of Technology, University of Sydney, and Hong Kong Polytechnic University.

His research interests are in corporate financial reporting, financial analysis and governance. He has recently begun working on public sector data, with interest in local councils. He is actively involved in international professional accounting activities, including: IFRS Advisory Council 2012 – 2013 and IFRS Interpretations Committee (IFRIC) 2004-2008. Prior to his academic career, he was, for ten years, a chartered accountant with a large accounting firm in Auckland and London.

### **Kimberley Crook**

Kimberley Crook is a partner with EY, where she is the firm's New Zealand IFRS leader, and part of its Financial Accounting Advisory Services team. She provides advice on the application of accounting standards across a range of technical issues to clients in the corporate, public and not-for-profit sectors. Kimberley was previously NZICA Technical Director – Accounting Standards and has also held senior staff positions at the International Accounting Standards Board and the UK Accounting Standards Board. Kimberley was a member of the FRSB.

### **Michele Embling - Deputy Chair**

Michele Embling is the Chair of PWC. She was responsible for leading the firm's Assurance practice and provides leadership and continuity in the firm's approach to its clients. Michele's expertise is advising clients on financial reporting, statutory and regulatory reporting issues.

Michele is a specialist in international financial reporting standards (IFRS) and has extensive experience advising organisations on complex financial reporting matters, in particular, those relating to financial statements and prospectuses of issuer clients in securities markets.

### **John Kensington**

John Kensington is Financial Services Audit Partner at KPMG. He is the head of KPMG's Financial Services Audit Practice and banking and Finance Line of Business. He is also the editor of the Financial Institutions Performance Survey.

John is a licenced auditor and his audit experience covers a wide range of commercial sector clients including Banking, Insurance, Funds Management, and the Automotive Industry. He has particular expertise in financial services auditing and related Reserve Bank and Trustee reporting requirements. John is also a trustee of the KidsCan Charitable Trust.

### **Graeme Mitchell – Chair**

Graeme Mitchell is a chartered accountant and professional director. He is a director of the Retirement Income Group of companies, Barnardos New Zealand, Deputy Chair of the National Provident Fund Board of Trustees, Chair of the Audit Committees of the Ministry of Justice, Ministry of Social Development and the Humans Rights Commission and an independent member of the audit committee of Porirua City Council.

He is also the Honorary Consul General for Norway and was made an Officer of the Royal Norwegian Order of Merit in 2009 for services to Norway overseas.

Graeme is a retired Deloitte Audit and Assurance Partner. In that role he was responsible for leading the audits of large entities in the public and private sectors, covering a wide range of business activities.

### **Jane Taylor**

Jane Taylor is a lawyer, chartered accountant and professional director. She has extensive experience in commerce, governance and law.

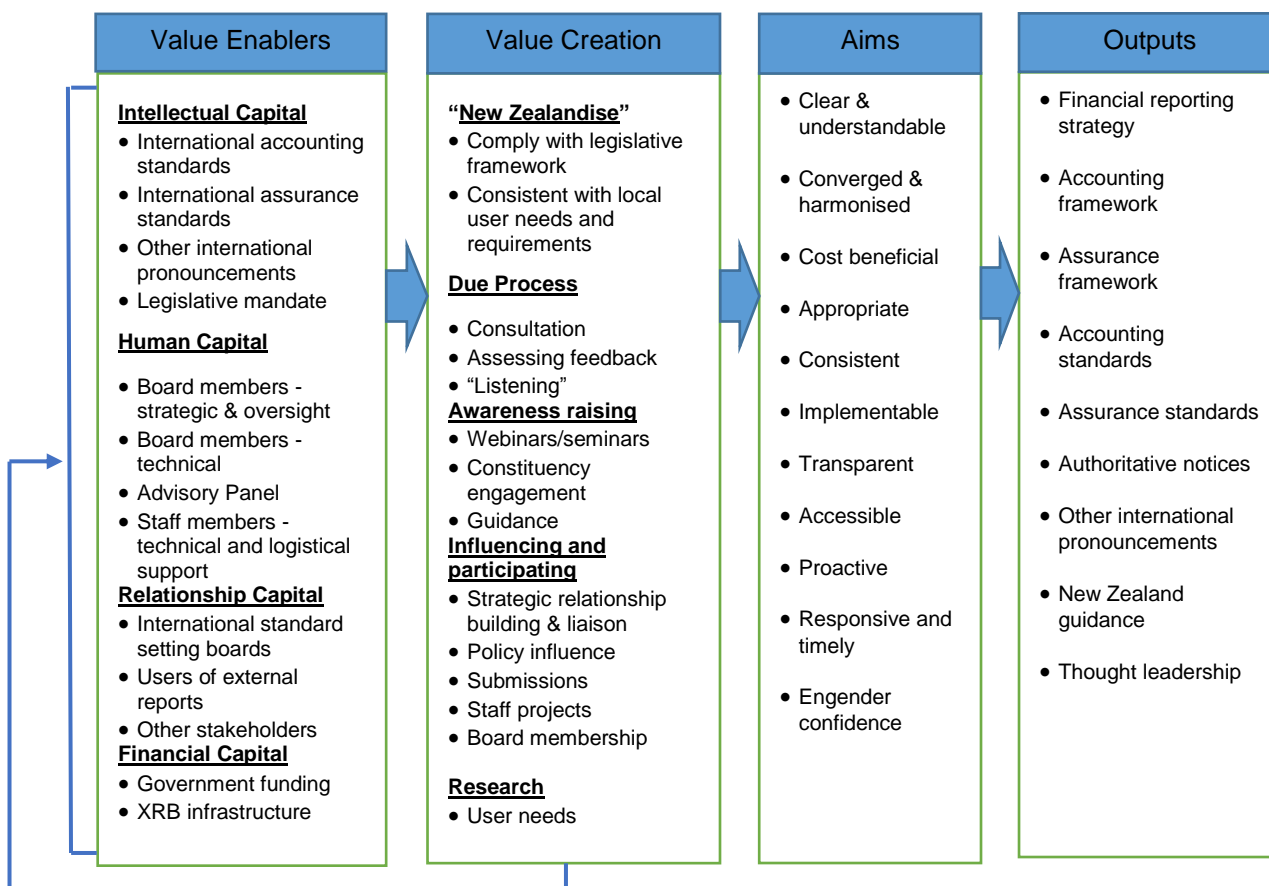
Jane is currently Chair of NZ Post, Chair of Landcare Research New Zealand Limited, Independent Director and Chair of the Audit and Risk Committee for Silver Fern Farms Limited and Deputy Chair of Radio New Zealand.

### **Fergus Welsh**

Fergus Welsh is a Chartered Accountant with specialist knowledge of public benefit entity reporting issues. He has more than 25 years' public sector financial management experience working across a number of government agencies. Fergus is currently the Group Manager-Financial Advice & Control at the Ministry of Health.

Prior to that he held roles as Chief Financial Officer and Chief Accountant at the New Zealand Treasury, and has also been the New Zealand Government Representative on the Governing Board of the Joint Accreditation System of Australia and New Zealand (JAS-ANZ).

## Appendix 2: External Reporting Board - 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.