



EXTERNAL REPORTING BOARD

Te Kāwai Ārahi Pūrongo Mōwaho

Statement of Intent

**For the five-year period
1 July 2014 to 30 June 2019**

April 2014

Prepared in accordance with section 139 of the Crown Entities Act 2004

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Statement of Responsibility

This Statement of Intent has been prepared in accordance with the requirements of sections 139 of the Crown Entities Act 2004. The purpose of the Statement of Intent is to promote the public accountability of the External Reporting Board (XRB) by:

- enabling the Crown to participate in the process of setting the XRB's strategic intentions and medium-term undertakings;
- setting out for the House of Representatives those intentions and undertakings; and
- providing a base against which the XRB's actual performance can be assessed.

The Board is responsible for the content of this Statement of Intent.

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 Intent.

In accordance with section 145 of the Crown Entities Act 2004, the XRB has consulted with the Minister of Commerce in the preparation of this Statement.



Graeme Mitchell

Chairman

9 April 2014



Michele Embling

Board Member

9 April 2014

Part 1: Introduction

The External Reporting Board (XRB) is an Independent Crown Entity established under the Financial Reporting Act 1993, with continued existence 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;
- preparing and issuing auditing and 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 Board itself comprises 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 up to ten suitably qualified and experienced persons with a diversity of perspective. Information about the current members of the standard setting boards can be found at www.xrb.govt.nz.

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

Part 2: Strategic Intentions 2014-2019

2.1 Purpose of this Part

This part of the Statement of Intent outlines the XRB's strategic intentions (the strategic objectives that the XRB intends to achieve or contribute to) for the five-year period 1 July 2014 to 30 June 2019. In doing so it outlines the XRB's outcome goal and how it contributes to the Government's goals, the strategic objectives and achievements over the last three years, and the strategic priorities for the next five years (the period covered by this Statement of Intent).

2.2 XRB's Outcome Goal

Government Priorities

The Government has established the following as its priorities for the period covered by this Statement of Intent:

- *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 mostly related to the Government's objective to *build a more productive and competitive economy*, and the associated Business Growth Agenda. Accordingly, this is the XRB's overarching outcome goal.

The XRB will, however, seek to contribute to the Government's other priorities in ways appropriate for the XRB. This will include ensuring that the XRB's financial reporting standards encourage the reporting of the Government's finances in a transparent and meaningful way; and in ensuring that the XRB operates in an efficient and fiscally prudent manner and with a culture of continual performance improvement.

XRB's Outcome Goal

A precondition for a productive and competitive economy 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 public accountability and good corporate governance needs to be viewed in a wide 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 and other stakeholders. To that end, the purpose 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 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 users of financial reports is therefore important to achieving effective public 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 user 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 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 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 outcome goals and its Business Growth Agenda.

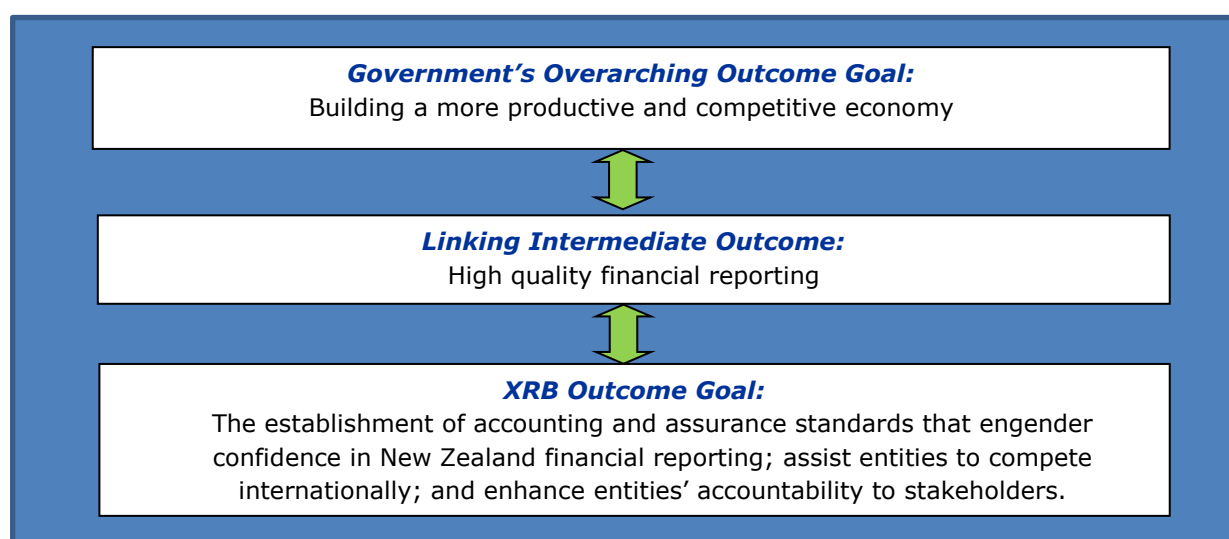
Accordingly, upon its establishment in 2011, the XRB adopted the following outcome goal for the organisation:

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.*

The relationship between the XRB's outcome goal and the Government's overarching outcome goal (priorities) is illustrated in Figure 1.

Figure 1: XRB Outcome Framework



The XRB considers the outcome goal established in 2011 continues to be a good reflection of the overall contribution that the XRB Organisation makes to building a more productive and competitive economy. Accordingly, the XRB has reaffirmed this outcome statement as its outcome goal for the 2014-19 period – the period covered by this Statement of Intent.

2.3 Strategic Context

XRB's Strategic Priorities Since 2011

The XRB came into existence on 1 July 2011. The first three years (the XRB's first strategic period) have been dominated by four broad strategies linked to the outcome goal:

- Establishing the XRB Organisation;
- Putting in place the new Accounting Standards Framework and the new Auditing and Assurance Standards Framework agreed by the XRB on its establishment;
- Responding to legislative changes; and
- Developing and implementing strategies for active and meaningful engagement with the constituency.²

The development and roll-out of the new standards frameworks was of particular importance during this first strategic period.

The new Accounting Standards Framework³ consists of a two-sector, four-tier structure with different accounting standards applying to each tier. In developing this Framework the XRB's philosophy was that international standards should be adopted unless there are very strong reasons not to; and that the for-profit standards should remain harmonised with Australia unless there are very strong reasons not to. Accordingly, the accounting standards for the for-profit sector continue to be based on International Financial Reporting Standards (IFRS). The accounting standards for the public benefit entity sector (which are called PBE Accounting Standards) are based on International Public Sector Accounting Standards (IPSAS) modified as appropriate for public sector and not-for-profit entities in New Zealand. Simple Format Reporting Standards have been developed for application by smaller public benefit entities to reflect the relative costs and benefits of reporting by entities of this size. Establishing the specific accounting standards necessary to give effect to the new Accounting Standards Framework began in the 2011/12 financial year, continued in the 2012/13 and 2013/14 financial years and will be completed in the 2014/15 financial year.

² A detailed discussion about each of these four broad strategies can be found in the XRB's Strategic Plan for the five year period 1 July 2014 to 30 June 2019, which is available at http://www.xrb.govt.nz/Site/about_us/Accountability_Documents.aspx

³ The new Accounting Standards Framework is contained in a document entitled "Proposals for the New Zealand Accounting Standards Framework". In accordance with the requirements of the Financial Reporting Act 1993, this document was submitted to, and approved by, the Minister of Commerce in April 2012. The approved document is available at www.xrb.govt.nz.

The XRB assumed responsibility for setting auditing and assurance standards from 1 July 2011 and an initial set of standards, based on those existing prior to that date, was put in place at that time. A new Auditing and Assurance Standards Framework was also adopted at that time. That Framework involved developing the inherited suite of standards so that they are converged with international standards, and harmonised with Australian auditing and assurance standards. Work on implementing this Auditing and Assurance Standards Framework began in the 2011/12 financial year and was substantively completed in the 2013/14 financial year.

The Foundation for the 2014-19 Strategic Period

The XRB considers that a great deal has been achieved during the XRB's first strategic period. Key amongst this has been putting in place the new suites of accounting standards necessary to give effect to the new Accounting Standards Framework, and enhancing auditing and assurance standards so that they are consistent with the new Auditing & Assurance Standards Framework. This has included some significant initiatives including the development of reduced disclosure accounting standards, PBE Standards, and Simple Format Reporting Standards. The establishment of new Professional and Ethical Standards for assurance providers as well as new Review standards have been significant development in the assurance standards area.

However, the XRB recognises that the information needs of users of financial reports evolve over time. In the same way as current user-needs are different from those of 10 or 15 years ago, so too are the user-needs of the future likely to be (at least partially) different from the user-needs of today. This is particularly so in the global financial market of which New Zealand is part, and is one of the reasons why the XRB's strategy is to adopt international standards where appropriate. However, some needs may emerge locally affecting only entities reporting in New Zealand. This all means that there is a continuing need to consider the extent to which accounting and assurance standards are meeting user-needs.

The XRB also recognises that there is an inherent tension in the adoption of international standards (which reflect user-needs internationally) and seeking to respond to local user-needs (which don't always reflect the same detailed information needs or balance of costs and benefits as international standards). This is a tension that is unavoidable and which needs to be regularly considered as part of the New Zealand standard setting process. The XRB is aware that there are some issues with existing standards that it will be desirable to address to help mitigate this tension.

The development of the new Accounting Standards Framework and the new Auditing & Assurance Standards Framework is not an end in itself. Rather, the XRB has always been of the view that putting in place the new Accounting and Auditing & Assurance Standards Frameworks was a necessary first step towards achieving the continuous objective of a financial reporting framework and standards (both accounting and assurance) that have a meaningful user-needs focus and that appropriately manage the tensions between conflicting user-needs. It is only through ensuring that financial reporting (including the reporting of relevant non-financial information) is providing information of importance and relevance to users of financial reports, in an appropriately balanced way, that the XRB's outcome goal can be achieved.

The XRB has coined the phrase “Giving Life to the User-Needs Framework” as a way of encapsulating this idea, and has determined that it is to be the strategic focus for the XRB’s second strategic period (2014-2019 – the period covered by this Statement of Intent).

2.4 Strategic Priorities 2014-2019

The XRB’s strategic priorities for the 2014/15-2018/19 period, which are designed to focus on key areas necessary to the achievement of the XRB’s outcome goal, are as follows:

Broad Strategic Approach:

- Maintain the existing financial reporting strategy including the multi-standards, multi-tier accounting standards framework;
- Continue the convergence and harmonisation approach (where relevant) for both accounting and auditing & assurance standards;

Broad Output Priorities:

- Create a period of relative stability in standards for the next few years to allow the constituency to implement and adapt to the standard reforms that have occurred since 2011;
- Maintain the existing suites of standards so that they are of a high quality and remain consistent with international standards and Australian standards (where relevant);
- Identify and address any deficiencies or gaps in existing standards that are critical to user-needs and the quality of financial reporting;
- Undertake 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;

Broad Delivery Mechanisms:

- Seek to influence the work of the international boards during the early stages of standards development through the establishment of “influencing strategies” specific to each international board;
- Continue to develop standards with, rather than to, the constituency; and to this end establish approaches to further enhance the level and quality of constituency engagement;
- Increase the organisation’s involvement in education activities to help the constituency better understand the role, purpose and requirements of XRB standards;

- Actively facilitate other relevant organisations to provide appropriate training and professional development activities relating to financial reporting; and
- Actively work with other agencies to ensure the linkages between the work of relevant agencies in the financial reporting area is identified and gaps addressed.

Ownership Performance:

- Maintain 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.

A fuller description and discussion of these strategic priorities is contained in the XRB's Strategic Plan for the five year period 1 July 2014 to 30 June 2019 entitled "Giving Life to the User-Needs Framework".⁴

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

Part 3: Functions and Capability 2014-2019

3.1 Purpose of this Part

This part of the Statement of Intent outlines the XRB's operational functions and capability initiatives the XRB intends to take to give effect to the strategic intentions outlined in Part 2.

3.2 Nature and Scope of the XRB's Functions and Operations

The intended scope of XRB activities over the 2014-19 period is consistent with the XRB's statutory functions and is as follows:

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

The XRB intends to impact its outcome goal over the 2014-19 period through the delivery of one output class:

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

The XRB intends to deliver three outputs as part of that output class during the 2014-19 period:

Output 1: Financial Reporting Strategy;

Output 2: Preparing and Issuing Accounting Standards; and

Output 3: Preparing and Issuing Auditing and Assurance Standards.

These outputs reflect three of the XRB's statutory responsibilities. The fourth responsibility (liaising with kindred national and international organisations) is undertaken as a core part of delivering these outputs.

The strategic priorities outlined in Part 2 of this Statement of Intent will be given effect through the way in which the three outputs are delivered. This is discussed in section 3.3 below.

3.3 Management of Functions and Operations to Meet Strategic Intentions

The primary focus of the XRB during the five-year period covered by this Statement of Intent will be the delivery of the three outputs that make up the XRB's output class. The allocation of resources, the detailed activities of the XRB Organisation, and the management thereof will be focused accordingly.

The way in which those outputs are produced and delivered will affect the degree of impact the outputs have on the achievement of the XRB's outcome goal. The strategic priorities outlined in section 2.4 are designed to focus attention on aspects of output production that the XRB considers are particularly important to enhancing outcome achievement during the five-year period covered by this Statement of Intent.

The XRB envisages these strategic priorities being integrated into output production and resource allocation processes as follows:

- ***Maintaining Existing Standards***

It is essential that the suites of existing standards are maintained on an on-going basis so that they are fully converged with international standards and harmonised with Australian standards (as relevant) at all times. This means that maintaining the existing suites of standards will continue to be a key priority for the XRB during the 2014-19 period. It will form the core part of the XRB's output work over the five-year period and will be the first call on resources.

- ***Addressing Critical Issues***

A related continuing priority is addressing any deficiencies or gaps in existing standards that are critical to user-needs and the quality of financial reporting during the next five years. This is the second core aspect of the XRB's outputs and resources will be allocated as necessary to this priority.

- ***User-needs Research***

The XRB is concerned to ensure that user-needs are firmly at the forefront of standard setting in New Zealand in the future. Having considered user-needs issues extensively over recent years the XRB has concluded that it does not have sufficient information about the users of information and assurance provided under its standards (both accounting and auditing), their information needs, and which of those information needs should be met through general purpose financial reporting (and the statutory assurance thereon). The XRB has therefore established research into user needs, in both the accounting and auditing & assurance context, as a priority for the next strategic period.

This is effectively a research and development activity that will inform future decisions about how to enhance XRB standards, and as a basis for empirical-based discussions with the international boards on what areas the XRB should be encouraging the international boards to address. It will be funded from existing resources i.e. the pool of available resource remaining after adequate resources have been allocated to maintaining existing standards and addressing critical issues priorities.

- ***Influencing International Boards***

The XRB's strategy of ensuring New Zealand standards reflect international standards means that it is important for the XRB to continue to seek to influence the international boards "at the front end" (i.e. during the early stages of standard development). Although quite some effort has been applied to this strategy over the XRB's first three years, the XRB considers that this should be an area of even greater emphasis over the period covered by this Statement of Intent.

The XRB envisages this priority being given effect as part of the core output activity of the organisation, i.e. through the way in which the outputs (accounting and auditing & assurance standards) are delivered, with a targeted approach

being followed. It will be funded from the pool of available resource remaining after adequate resources have been allocated to the maintaining existing standards and addressing critical issues priorities.

- **Constituency Engagement**

The XRB has a statutory obligation to consult with the constituency before issuing accounting or auditing and assurance standards. The XRB is fully committed to following appropriate due process and considers this an essential part of the standard setting process. It has established specific and deliberate consultation processes and these are a major factor in the way in which the XRB produces its outputs.

The XRB is also committed to developing standards in collaboration with the constituency and accordingly considers that constituency engagement should continue to be a priority for the 2014-19 strategic period. This includes the continued operation of an External Reporting Advisory Panel (XRAP) as well as various formal and informal consultation and engagement processes.

The XRB envisages this priority also being given effect as part of the core output activity of the organisation, i.e. through the way in which the outputs (accounting and auditing & assurance standards) are delivered, but based on deliberate and explicit engagement strategies and mechanisms. Increased activity in this area will also be funded from existing resources resulting from reprioritisation.

- **Education**

The XRB considers that given the amount of change, and the complexity of reporting and assurance in the modern economy, the proper understanding, implementation and application of XRB standards across the constituency is likely to require a greater education effort from the XRB over the next five years. However, the XRB intends that this should be limited to education necessary to help the constituency understand XRB standards. However, this should not extend to training on how to apply the standards, professional development training, or education of a general nature (such as financial literacy).

Once again the XRB envisages this priority being given effect as part of the core output activity of the organisation, i.e. as part of the accounting and auditing & assurance standards outputs. Increased activity in this area will also be funded from the pool of existing resources resulting from reprioritisation.

3.4 Organisational Health and Capability

Overview

From an organisational health perspective, the XRB worked hard during its first three years to ensure that the XRB organisation moved to operating in a "steady-state" mode as soon as possible after its establishment. This involved establishing the organisation, developing the necessary capability, and ensuring that the organisation was fulfilling its statutory functions effectively and efficiently. A key aspect of this was establishing a cost-control, value for money culture and approach within the organisation.

The XRB's strategic ownership priorities for the 2014/15-2018/19 period are to:

- Operate in a financially prudent manner including within the fiscal parameters established by appropriation;
- Maintain the level of capability needed to deliver the outputs required and the strategic priorities outlined in Part 2; and
- Maintain a high performance culture commensurate with achieving the XRB's outcome goals.

Financial Management

The XRB is very conscious of the Government's fiscal constraints, the need to operate within its means, and to ensure value for money in all that the XRB does. The XRB's financial management objective for the period of this Statement of Intent is to:

- Ensure that its expenditure is no greater than its funding, that being its annual appropriation plus any retained earnings;
- Continue to promote a value for money culture within the XRB Organisation, with a view to identifying on-going opportunities for efficiency gains.

Capability

The XRB's capability objective is to:

- Retain a near full complement of suitably qualified Board members and staff; and
- Maintain full operational capability in the Wellington and Auckland offices.

The XRB's capability is primarily dependent on its human capital, much of which requires a specialised skill set. The XRB intends to maintain the human capital that has been developed over recent years by retaining and developing staff, and by creating opportunities for the development of future Board members. Workplace policies (including good employer policies), remuneration policies, and methods of operation (such as constituency working groups) are all designed to contribute to this human capital maintenance approach. These policies will be maintained, and where appropriate enhanced, over the period of this Statement of Intent.

The XRB has only a small amount of physical capital (estimated at \$267,000 on 30 June 2014). This is mostly office furniture and computer equipment. The XRB's strategy is to maintain this physical capital through an on-going asset replacement programme funded from depreciation.

The XRB will also continue to operate appropriate risk management strategies. These include business continuity strategies, and strategies to avoid the loss of key data and records.

High Performance Culture

From its establishment in 2011 the XRB has worked hard to establish a high performance, financial prudent culture within the XRB Organisation. The XRB considers this to an area requiring on-going effort in any organisation and therefore will continue

to target this over the period of this Statement of Intent. As part of this the XRB will continue to:

- be vigilant in identifying opportunities for cost saving and ensuring value for money;
- promote its continuous improvement culture, and in so doing look at cost-effective ways to assess the extent of continuous improvement (such as the state sector Performance Improvement Framework self-review methodology); and
- look for innovative ways of making XRB standards easily accessible to the constituency and general public, including through enhancement of the XRB website and through other technological opportunities.

Part 4: Other Matters

4.1 Assessing Performance

The XRB plans to assess its performance primarily by reference to output delivery. In that context 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.

The XRB considers that output, rather than outcome, based performance measurement to be the most appropriate for the XRB.

A large number of factors, in addition to the work of the XRB, influence the achievement of the XRB's outcome goal. These include domestic and international events and the activities of a wide range of other organisations including regulators, preparers of financial reports, auditors, professional accounting bodies, government agencies, and various other constituency groups. All of these factors are interdependent, and all contribute in varying ways (both positively and negatively) to the XRB's outcome goal. In the XRB's view establishing measures, targets and benchmark information for that outcome goal would give a false indication of the degree of influence the XRB has over the outcome given the multitude of influencing factors that it does not control. Outcome based measures would therefore not provide meaningful information about XRB performance for accountability purposes.

The XRB also considers the relationship between the Overarching Outcome Goal, the Intermediate Outcome and the XRB Outcome Goal (see Figure 1) is relatively self-evident and clear, as is the nature of the XRB's contribution to these outcomes through the issuing of standards.

In addition, it would be a difficult and highly complex exercise to establish the specific causal links between the XRB's outputs and its outcome goal. The cost of developing detailed outcome and impact performance measures using current methods and processes is likely to outweigh the value of such information.

Notwithstanding the inappropriateness of outcome based performance measurement, the XRB is deeply concerned with positively influencing the outcomes and significant focus and effort is applied to achieving this – as is evidenced by the development of the strategic priorities outlined in sections 2.4 and 3.3. Accordingly, during the period covered by this Statement of Intent the XRB will continue its practice of monitoring likely outcome contribution through cost effective means. This includes monitoring the state of financial reporting through information available from such bodies as the Companies Office, the Financial Markets Authority (FMA) and DIA Charities Services, as well as information in the public domain, such as the "Strength of Auditing and Reporting Standards" index in the Global Competitiveness Report. This monitoring is designed to allow the XRB to assess in a general way the extent to which the strategies adopted and the standards issued by the XRB are consistent with the XRB's outcome goal.

4.2 Process to be followed for Acquisitions

The XRB does not expect to acquire shares or interests in companies, trusts or partnerships or joint ventures during the three-year period. No process is therefore required to be specified in accordance with section 100 of the Crown Entities Act 2004.