



EXTERNAL REPORTING BOARD

Te Kāwai Ārahi Pūrongo Mōwaho

"Giving Life to the User-Needs Framework"

Strategic Plan

**For the five-year period
1 July 2017 to 30 June 2022**

10 August 2017

© Crown Copyright
External Reporting Board
PO Box 11250
Manners St Central, Wellington 6142
New Zealand
<http://www.xrb.govt.nz>

Permission to reproduce: The copyright owner authorises reproduction of this work, in whole or in part, so long as no charge is made for the supply of copies, and the integrity and attribution of the work as a publication of the External Reporting Board is not interfered with in any way.

Contents

	Page
1. Overview of the XRB	4
2. XRB's Outcome Goals	5
3. Strategic Context	10
4. Strategic Priorities for the 2017–2022 Period	11
5. Ownership Performance Priorities for the 2017–2022 Period	17
6. Strategic Challenges/Risks and Mitigating Actions	18
7. Summary of XRB Strategies for the 2017–2022 Period	19

1. Overview of the XRB

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 functions of the XRB are prescribed by section 12 of the Financial Reporting Act 2013¹ and comprise:

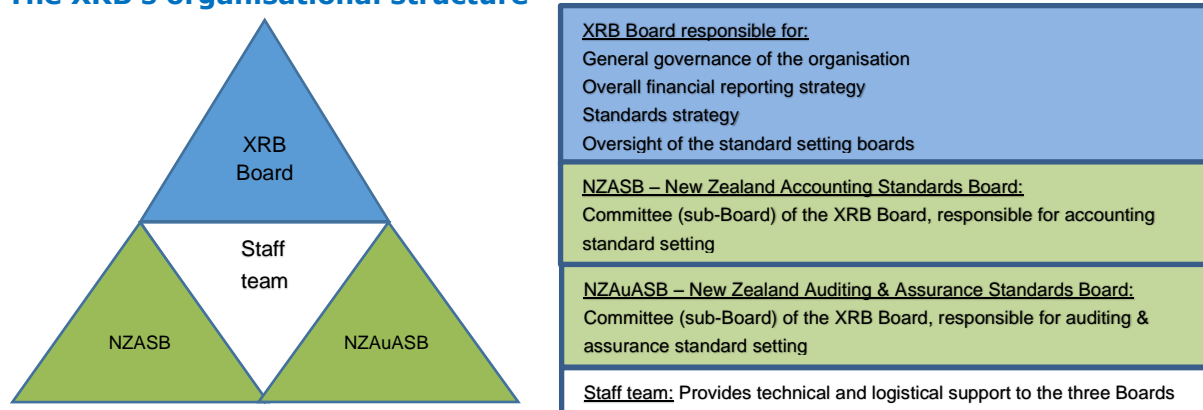
- developing and implementing an overall strategy for financial reporting standards and auditing & assurance standards (including developing and implementing tiers of financial reporting);
- preparing and issuing accounting standards, and preparing and issuing authoritative notices that form part of generally accepted accounting practice;
- preparing and issuing auditing & assurance standards; and
- liaising with national and international organisations that exercise functions that correspond with, or are similar to, those conferred on the XRB.

The XRB 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 XRB Board has established two standard setting boards², one that has responsibility for accounting standard setting (the New Zealand Accounting Standards Board – NZASB) and the other with responsibility for auditing & assurance standard setting (the New Zealand Auditing and Assurance Standards Board – NZAuASB). 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 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 (currently 17) based in Wellington, Auckland and Nelson provides technical and logistical support to the three Boards.

The XRB's organisational structure



¹ The functions of the XRB under the 2013 Act are not significantly different from those under the 1993 Act.

² In terms of the Crown Entities Act 2004, these are Committees of the Board.

2. XRB's Outcome Goals

The Government has established the following as its priorities:

- *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*. This is the XRB's overarching outcome goal. The XRB seeks to contribute to the Government's other priorities in ways appropriate for the XRB. This includes ensuring that its financial reporting standards encourage the reporting of the Government's finances in a transparent and meaningful way; and ensuring that the XRB operates in an efficient and fiscally prudent manner.

A precondition for a productive and competitive economy is effective public accountability and good corporate governance that apply in all sectors (for-profit, public sector and not-for-profit) and 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 debt 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 the users of financial reports is therefore important to achieving effective public accountability and good corporate governance, and then in turn building a more productive and competitive economy. To achieve this, financial reporting needs to be focused on the information needs of the users of general purpose financial reports; of a quality that engenders user confidence and trust 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 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.

Accordingly, the XRB Board has established the following as the XRB Organisation's outcome goal:

The establishment of accounting and assurance standards that:

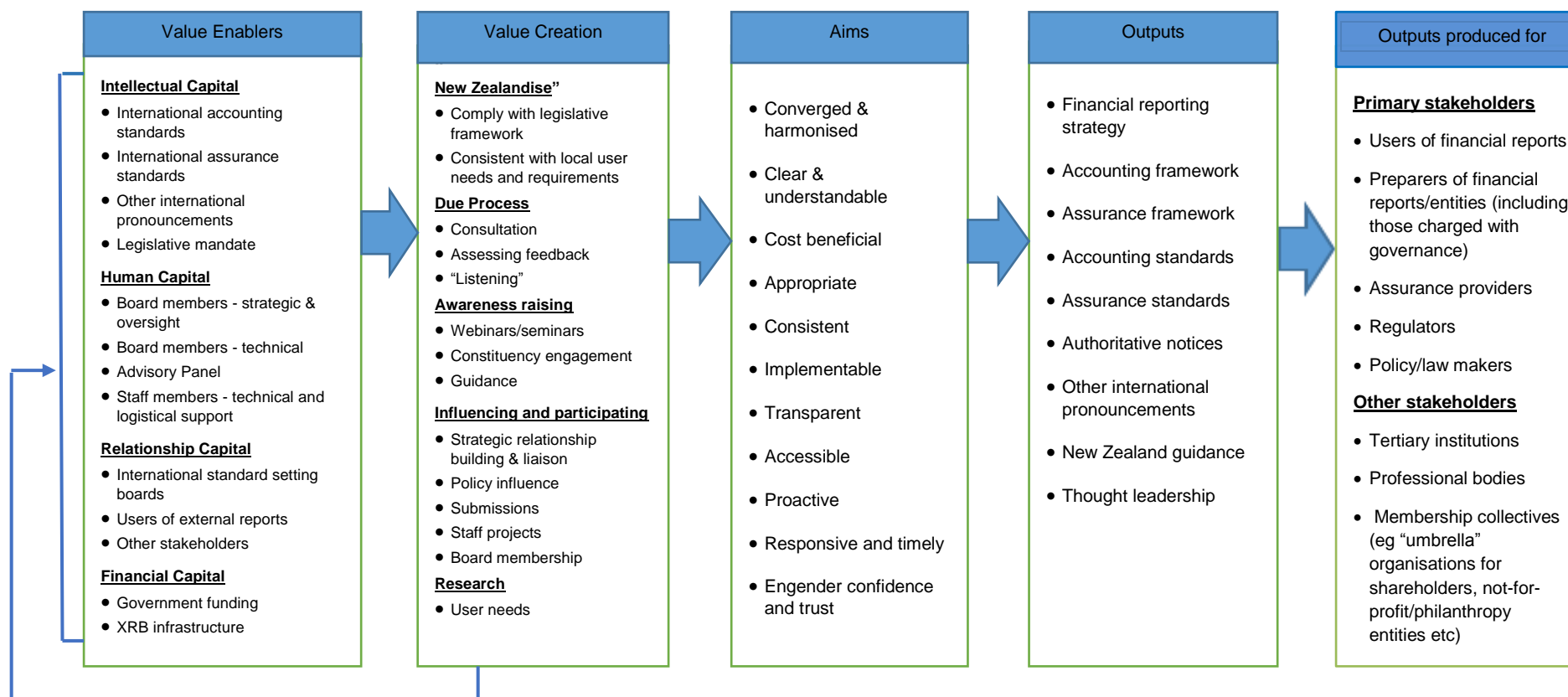
- *engender confidence in New Zealand financial reporting;*
- *assist entities to compete internationally; and*
- *enhance entities' accountability to stakeholders.*

The XRB Board seeks to influence the achievement of this outcome goal through the delivery of three key outputs:

- financial reporting strategy (including the standards frameworks and thought leadership);
- preparing and issuing accounting standards (including related international pronouncements and guidance); and
- preparing and issuing auditing & assurance standards (including related international pronouncements and guidance).

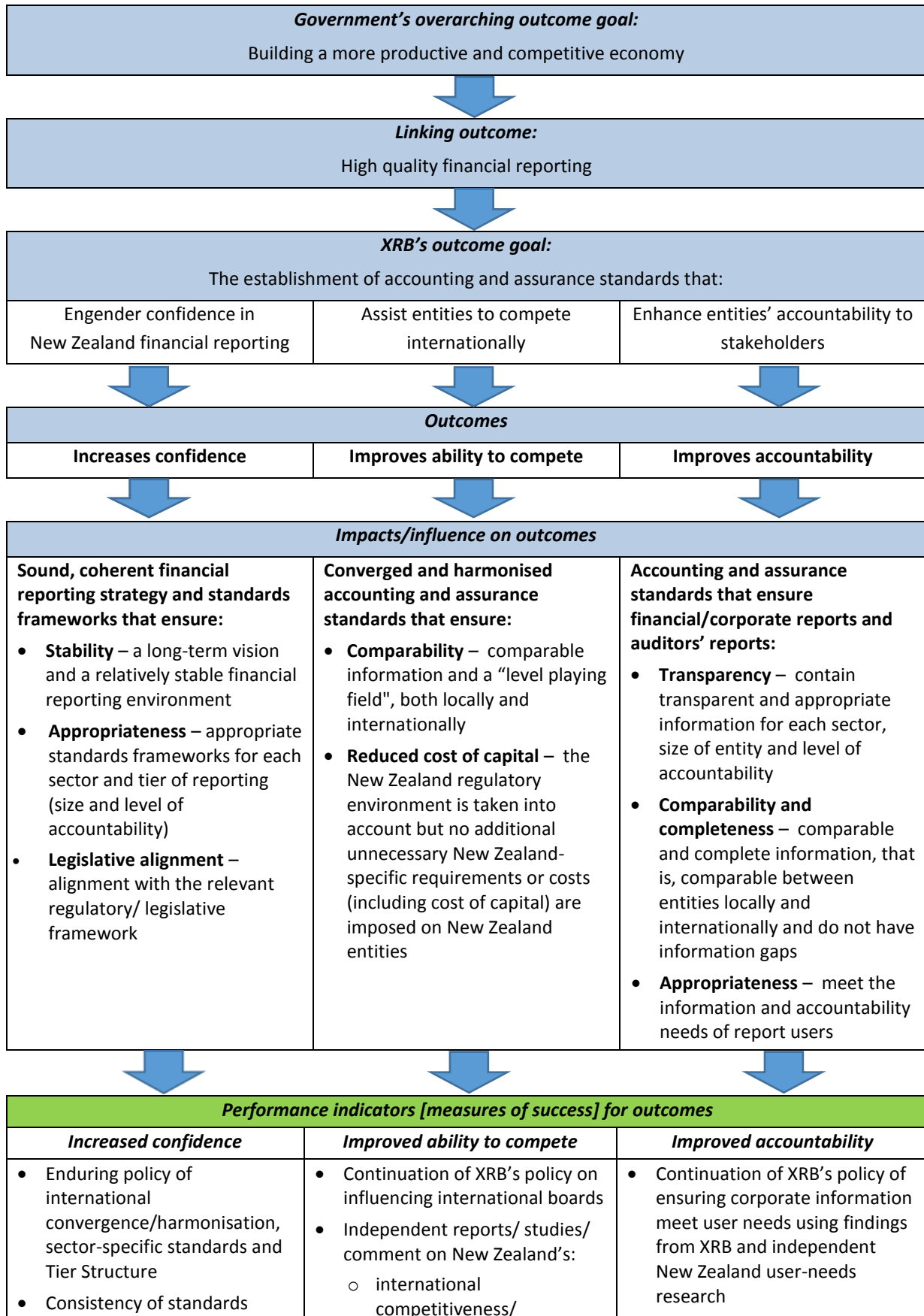
The XRB's value adding model is illustrated in Figure 1 and the XRB's outcome, impact and output performance framework is illustrated in Figure 2.


Figure 1: Our Value Adding Model



Value enablers	<ul style="list-style-type: none"> Resources and relationships used in our value creation process.
Value creation	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Objectives driving the delivery of our outputs.
Outputs	<ul style="list-style-type: none"> Services created by our value adding model and contributing to our outcome goal.

Figure 2: XRB Outcome, Impact and Output Performance Framework



<p>frameworks with legislative frameworks</p> <ul style="list-style-type: none"> • Reliability of financial reporting strategy and standards frameworks that require infrequent changes • Responsiveness and timeliness of standards frameworks to legislative changes and stakeholder feedback • Number of requests from stakeholders for changes to standards frameworks 	<p>competitive position</p> <ul style="list-style-type: none"> ○ ranking attributable to accounting and assurance standards ○ reaction to international reporting trends 	<ul style="list-style-type: none"> • Independent reports/ studies/ comment about: <ul style="list-style-type: none"> ○ transparency and understandability of reported corporate information ○ audit quality ○ stakeholder awareness of wider corporate reporting and non-financial reporting matters • Independent feedback from other regulatory bodies about the requirements of standards
	<ul style="list-style-type: none"> • Responsiveness of standards to new (or amended) international standards • Number of requests for New Zealand-specific amendments to standards that are not related to legislative or standards frameworks • Timeliness of changes to standards to reflect stakeholder feedback 	
<ul style="list-style-type: none"> ○ Findings from domestic and international stakeholder survey on XRB's work 		
		
<p>Outputs to influence achievement of outcome goal</p>		
<p>Financial Reporting Strategy, Accounting Framework, Assurance Framework and thought leadership</p>		
	<p>Accounting Standards, Authoritative Notices, other international pronouncements and New Zealand guidance</p>	
	<p>Auditing & Assurance Standards, other international pronouncements and New Zealand guidance</p>	

The outputs reflect three of the XRB's statutory responsibilities (see section 1). The fourth responsibility (liaising with kindred national and international organisations) is undertaken as a core part of delivering these outputs.

3. Strategic Context

3.1 The Foundations for the XRB's Strategic Plan

The foundations of the XRB Board's strategic plan is encapsulated in the phrase "*Giving Life to the User-Needs Framework*"³.

These foundations include, in the context of the XRB Board's strategy to adopt international standards where appropriate:

- The recognition that information needs of users of financial reports evolve over time, particularly in the global financial market of which New Zealand is part;
- The need to continue to consider the extent to which accounting and auditing & assurance standards are meeting user-needs as some needs may emerge locally affecting only entities reporting in New Zealand;
- The need to regularly consider, as part of the New Zealand standard setting process, the inherent tension in the adoption of international standards (which reflect user-needs internationally) and to seek to respond to local user-needs (which do not always reflect the same detailed information needs or balance of costs and benefits as international standards);
- The recognition that the development of the Accounting Standards Framework and the Auditing & Assurance Standards Framework is not an end in itself but is 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; and
- The need to ensure 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, to achieve the XRB's outcome goal.

³ The foundations of the XRB's Strategic Plan are set out in detail in the [Strategic Plan for the 5-year period 1 July 2014–30 June 2019](#).

4. Strategic Priorities for the 2017–2022 Period

4.1 Overview of Strategic Priorities

The underlying foundations for “*Giving Life to the User-Needs Framework*” continues to be appropriate for the XRB for the period 2017–2022. Therefore, the XRB Board’s strategic priorities for the period 2017–2022 continues to be based broadly on the same foundations.

In broad terms, the strategic priorities for the XRB Board for the 2017–2022 period can be summarised 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 applicable) for both accounting and auditing & assurance standards;

Broad Output Priorities:

- Create a period of relative stability in the standards frameworks for the next two years (pending a review in the 2019–2020 period of the standards frameworks) to allow the constituency to implement and adapt to the standard reforms of 2011–2016;
- Maintain the existing suites of standards so that they are of a high quality and remain consistent with international standards and, where applicable, Australian standards;
- Identify and address any deficiencies or gaps in existing standards that are critical to user-needs and the quality of financial reporting, including, where necessary, expanding the legal mandate of the XRB in relation to the issue of standards to better meet user needs and market demands;
- Undertake deliberate, organised research into the financial and non-financial information needs of the various users of our 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;
- Undertake a post-implementation review of the standards frameworks in the period 2019–2020, including of the costs and benefits aspects of the standards frameworks.

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/for, the constituency and, to this end, implement engagement strategies and approaches to enhance the level and quality of constituency engagement;

- Increase the organisation’s involvement in awareness raising activities to help the constituency better understand the role, purpose and requirements of our standards;
- Actively promote the awareness, understanding and implementation of extended external reporting (EER) among New Zealand constituents to ensure New Zealand keeps up with emerging international trends and developments in reporting non-financial information to complement the disclosure of financial information;
- Actively encourage, facilitate and support 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 and non-financial reporting and assurance areas are identified and gaps addressed.

These strategic priorities are discussed in more detail below.

4.2 Broad Strategic Approach

The XRB Board remains comfortable with the current financial reporting strategy which comprises two main elements:

- the multi-standards, multi-tier approach; and
- where applicable, standards that are converged with international standards and harmonised with Australian standards.

The XRB Board plans to continue with this broad approach over the 2017–2022 period. The XRB Board remains committed to the convergence and harmonisation strategy in the period 2017–2022: convergence with international standards and, where applicable, harmonisation with Australian standards.

The adoption of international standards as the basis for New Zealand standards reflects the XRB Board’s view that this is in New Zealand’s best interests given the globalised financial reporting environment that now exists. International events and pressures are reflected in the work of the international standard setting boards and, where appropriate, in the standards issued by those boards. In this way, New Zealand standards are reflective of the international environment.

However, for relevant international standards to remain appropriate for New Zealand, those standards need to represent a global set of standards that are cohesive, high quality, neutral and produced in a relatively timely manner. Any significant change to the manner in which international standards are set, or in the international standard setting environment or structure, may affect (or affect the perception of) the quality and appropriateness of those standards for New Zealand.

Recent international political events in Europe and the U.S. show that change can be significant and unexpected. While the implications of such events are not yet clear or fully understood, such events do create a “new normal” world, one that is likely to be subject to further significant and unexpected change. The standard-setting environment is not immune to such changes. In order to respond appropriately to any international disruption, in the 2017–2022 strategic period, the XRB Board will closely monitor all key international developments to assess and respond to any changes that may

fundamentally affect the standard setting environment, or the standard setting structures, under which international standards are set.

Good reporting by entities (whether for-profit entities or public benefit entities) plays a role in engendering confidence and trust in those entities. In the 2017–2022 strategic period, the XRB Board will continue to ensure the work of the XRB contributes to the maintenance and enhancement of that confidence and trust in entities through an active programme of engagement with stakeholders.

4.3 Broad Output Priorities

Relative Stability

In the 2015–2016 period, a number of significant standards, both in accounting and in auditing & assurance, were issued by international standards boards and adopted in New Zealand. In the 2017–2022 strategic period, the XRB Board will endeavour to maintain a period of relative stability in the standards frameworks to allow the constituency to implement the new standards. Accordingly, unless unexpected events and/or the proposed post-implementation review in the 2019–2020 period require otherwise, the XRB Board does not intend to make any fundamental change to the structure or substantive content of financial reporting requirements over the 2017–2022 period.

Maintaining Existing Standards

Maintaining existing standards requires the XRB Board to ensure that New Zealand standards are fully converged with international standards at all times and harmonised, where applicable, with Australian standards. It involves incorporating in New Zealand standards (following appropriate due process), 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).

The XRB has a statutory obligation to work with international standard setting bodies. In the 2017–2022 strategic period, the XRB Board, NZASB and NZAuASB will continue with the XRB Board's strategy to seek to influence international standards during their development phase.

An important part of the "standards maintenance" activity will also involve actively monitoring any issues emerging from the implementation of the new standards, and responding to those issues through changes to standards, where appropriate.

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.

Overall, while the suites of accounting and auditing & assurance standards are relatively comprehensive and robust, the XRB Board will continue to address any critical issues in the existing standards over the strategic period. This includes, where appropriate, expanding the XRB's legal mandate to enable the XRB to issue standards where this is considered necessary to better meet user needs and market demands.

User-needs Research

The XRB Board is also keen to promote high quality reporting of information by entities that meet user-needs. There are a range of areas where information might be able to be improved to better meet user-needs including:

- financial information;
- non-financial information;
- audit information; and
- the integration between them.

In the 2017–2022 strategic period, the XRB Board will continue its empirical, evidence-based approach to standard-setting and continue to undertake research into user needs, in both the accounting and the auditing & assurance context. Gathering empirical evidence will help inform future decisions about how to enhance XRB standards, what areas the XRB Board should be encouraging the international board to address, and as a basis for empirical-based discussions with the international boards.

In addition, the XRB Board will conduct a post-implementation review of its standards frameworks in the 2019–2020 period to ensure that its broad strategic approach and the standards frameworks continue to be appropriate from 2021 onwards. The review will include a review of the costs and benefits aspects of the standards frameworks.

4.4 Broad Delivery Mechanisms

Influencing International Boards

The XRB Board's convergence strategy means the current strategy of seeking to influence the international boards "at the front end" (i.e. during the early stages of standard development) will continue to be important. Much effort has been applied to this strategy since coming into existence and the XRB Board considers this should continue to be an area of emphasis over the 2017–2022 strategic period.

The XRB Board's efforts to influence the international boards is deliberate, coherent, constructive, and focused on topics of greatest importance to New Zealand. Accordingly, the XRB Board's influencing strategies are based on two broad (and interconnected) approaches: relationships and participation:

- *Relationships*: The XRB Board intends to continue to build relationships with the international boards (and related organisations) at both board member and staff levels.
- *Participation*: The XRB Board will continue in its efforts to support the work of the international boards (and related organisations) over the 2017–2022 strategic period and ensure it is adding value to the work of the international boards. This will include involvement in activities promoted by the international boards, contributing to technical or regional groupings to contribute to the work of the boards, participating in the work of the boards (through, for example, assistance with projects).

Where appropriate, the XRB Board will also seek to directly influence the international boards. The XRB Board is committed to maintaining good relationships with other standard setters and relevant groups in achieving this and will therefore also be an important priority during the 2017–2022 strategic period. The XRB Board will nominate and support suitably qualified individuals for

appointment to the membership of international boards, where this is considered to be appropriate.

In the 2017-2022 strategic period, international relationship building and participation (and active monitoring of international developments) will be important to enable the XRB Board to stay informed of, and respond to, any major disruptions in the international standard setting structure and environment.

Constituency Engagement

The XRB Board remains committed to its strategy of developing standards with, rather than to/for, the constituency.

Constituency engagement remains a priority for the 2017–2022 strategic period and the XRB Board will develop explicit strategies and mechanisms to achieve this. In addition, the XRB Board will continue to diversify the membership representation of the External Reporting Advisory Panel (XRAP) and use it as a platform for constituency and market feedback. The market-based feedback from XRAP is an important source of information for input into the work of the XRB.

Awareness Raising and Facilitation

An important aspect of the XRB Board’s awareness raising and facilitation is to ensure constituents fully understand the reasons for, benefits to be achieved and costs of any changes to standards frameworks, new standards or amendments to existing standards. This includes addressing any “expectations gap” between new (or amended) standards and constituents’ understanding of the purpose for those standards.

It is not within the XRB’s legislative mandate to provide training on how to apply the standards, professional development training, or education of a general nature (such as financial literacy). However, in the 2017–2022 strategic period, as part of its awareness raising, the XRB Board will actively encourage, facilitate and support others, as appropriate, in the provision of such training or education so that there is consistent application of standards in practice.

The XRB Board also considers the achievement of the Government’s economic outcomes in the financial reporting area will require greater co-ordination of efforts across the sector. Over the 2017–2022 strategic period, the XRB Board will continue to work actively with the Ministry of Business, Innovation and Employment, the Financial Markets Authority, the Reserve Bank and others to ensure the linkages between the work of relevant agencies (in both the accounting and auditing & assurance areas) are clearly identified and any gaps addressed.

Over the 2017–2022 strategic period, the XRB Board will continue to actively promote the awareness, understanding and implementation of extended external reporting among New Zealand constituents. The XRB Board intends to play an active role and set specific targets and goals to monitor the success (or otherwise) of such awareness raising. Ensuring that New Zealand entities keep up with international developments in reporting is consistent with the XRB’s outcome goal of engendering confidence in financial (and non-financial) reporting by New Zealand entities, assisting entities to compete internationally and enhancing entities’ accountability to stakeholders. The XRB Board will also continue to actively monitor the progress of international views and developments.

In addition, in the 2017–2022 strategic period, the XRB Board plans to develop a communications strategy that emphasises and incorporates social media. A modern communications strategy is important for the XRB Board to communicate with a greater number, and range, of its constituents and to raise constituents’ awareness of the XRB’s work.

5. Ownership Performance Priorities for the 2017–2022 Period

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 that the XRB does. Accordingly, a cost-control, value for money culture and approach has been established within the organisation.

The strategic ownership priorities for the 2017–2022 period are:

- 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 section 4; and
- Maintain a high performance culture commensurate with achieving the XRB’s outcome goals.

6. Strategic Challenges/Risks and Mitigating Actions

Risk management is an integral part of the XRB’s strategic planning process. Management, in consultation with the XRB Board, identifies and assesses the risks that may cause the XRB not to achieve its outcomes, and develops and implements actions to mitigate those risks.

Key risks	
<i>Strategic risks</i>	<i>Operational risks with strategic implications</i>
<ul style="list-style-type: none"> Standards not acceptable to constituency/stakeholders and therefore not applied; International standard setters cease to exist, produce standards too narrowly focused for New Zealand purposes or failure of the global initiative; Standards do not result in high quality user-focussed, multi-sectoral external reporting; and Loss of reputation/credibility of the XRB as a standard setter. 	<ul style="list-style-type: none"> Inability to attract/retain diverse and highly qualified Board members (loss of governance/technical resources); Inability to attract/retain diverse and highly qualified staff (loss of management/technical resources); and Insufficient funding to carry out legislative mandate.
Mitigating Actions	
<i>Strategic</i>	<i>Operational</i>
<ul style="list-style-type: none"> Constituency/stakeholder outreach <ul style="list-style-type: none"> Focused on New Zealand-specific issues; Early involvement in key projects with international boards; Relevant standards frameworks; Transparent due process; User acceptance, tested by research; and Active environmental scanning. 	<ul style="list-style-type: none"> Effective ministerial and governing ministry relationships; Effective brand management; Effective governance processes; Prudential management; and Good employer policies.

7. Summary of XRB Strategies for the 2017–2022 Period

Overarching Strategy

Maintain the existing financial reporting strategic approach comprising accounting and auditing & assurance standards that are converged with international standards and harmonised, where applicable, with Australian standards. In the case of accounting standards this is set within the established multi-standards, multi-tier accounting framework.

Specific Strategy 1: Maintain and Enhance Existing Standards

Establish 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 significant to user-needs and the quality of financial reporting.

Expand, where necessary, the XRB's mandate to issue standards to better meet user-needs and market demands.

Specific Strategy 2: Undertake User-needs Research

Undertake deliberate, organised research into the financial and non-financial information needs of the various users of our 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.

Undertake a post-implementation review of the XRB's financial reporting strategy and the standards frameworks in 2019–2020 period, including of the costs and benefits aspects of the standards frameworks.

Specific Strategy 3: Influence the International Boards

Support the overarching strategy of international convergence by actively:

- Seeking to influence the work of the international boards during the early stages of standards development through "influencing strategies" specific to each international board so that standards are relevant to New Zealand entities; and
- Participating in the work of the international standard setting boards through relationships, contribution by staff and, where appropriate, representation on international boards.
- Monitoring international developments to stay informed of, and respond to, any major disruptions in the international standard setting structure and environment.

Specific Strategy 4: Enhance Constituency Engagement and Support

Continue to develop standards in a collaborative manner with the constituency and to this end:

- Enhance the level and quality of constituency engagement, including further widening the membership representation of the XRAP and using it as a platform for constituency and market feedback;

- Increase the organisation's involvement in awareness activities that help the constituency better understand the role, purpose and requirements of our standards, including developing a communication strategy for social media;
- Actively promote the awareness, understanding and implementation of EER among New Zealand constituents and set specific targets and goals to monitor the success (or otherwise) of such awareness raising.
- Actively encourage, facilitate and support 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 and non-financial reporting and assurance areas are identified and gaps addressed.

Specific Strategy 5: Maintain Capability within a Financially Prudent Organisation

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.