



EXTERNAL REPORTING BOARD

Te Kāwai Ārahi Pūrongo Mōwaho

Statement of Intent

**For the five-year period
1 July 2020 to 30 June 2025**

April 2020

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 section 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 and Consumer Affairs in the preparation of this Statement.



Michele Embling

Chair

28 April 2020



Jane Taylor

Deputy Chair

28 April 2020

Part 1: Introduction

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 2013 and comprise:

- developing and implementing strategies including for the issuance of standards in order to provide a framework for the Board's overall direction, and a strategy for tiers of financial reporting;
- preparing and issuing financial reporting standards and authoritative pronouncements;
- preparing and issuing auditing & assurance standards, which include the professional and ethical standards that govern the professional conduct of auditors and standards for related services; and
- liaising with national and international organisations that perform functions that correspond with, or are similar to, those conferred on the XRB.

The XRB Board (the Board) comprises nine members appointed by the Governor-General on the recommendation of the responsible Minister (the Minister of Commerce and Consumer Affairs). Information about the current members of the XRB can be found at www.xrb.govt.nz.

The Board currently has two standard setting boards¹, one is responsible for financial reporting standard setting (the New Zealand Accounting Standards Board) and the other for auditing & assurance standard setting (the New Zealand Auditing and Assurance Standards Board). This structure is designed not only to ensure that 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 (in accordance with rates determined by the Remuneration Authority) 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 Board is responsible for general governance of the XRB, New Zealand's financial reporting strategy, standards setting strategy, and oversight of the standard setting boards.

As a consequence of the discussion document "Climate related Financial Disclosures" issued by the Ministry for the Environment and the Ministry of Business Innovation and Employment, the XRB has initiated preliminary discussions in regard to extending its mandate under S17(2) of the Financial Reporting Act. If extended, S17 would authorise the XRB to issue financial reporting standards that relate to:

- i. an entity's governance
- ii. an entity's strategic direction and targets

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

- iii. the social, environmental, and economic context in which an entity operates and
- iv. any other matter relating to an entity's performance or position

The Board and the two standards boards are supported by an executive team, (currently 16) based in offices in Wellington and Auckland, which provides technical and logistical support to meet its current mandate.

Part 2: Strategic Intentions 2020 - 2025

2.1 Purpose of this Part

This part of the Statement of Intent outlines the XRB's strategic intentions for 1 July 2020 to 30 June 2025 including the XRB's outcome and how it contributes to the Government's goals.

2.2 Outcomes

Government Priorities

The activities of the XRB are related to the Government's aims and in particular to building a sustainable and productive economy that contributes to the wellbeing of all New Zealanders.

The XRB will contribute to the Government's priorities in ways appropriate for the XRB. This will include ensuring that the XRB's standards encourage the reporting of the Government's finances in a transparent and meaningful way. The XRB will operate in an efficient and fiscally prudent manner with a culture of continuous performance improvement.

XRB's Outcome Goal

Effective public accountability, transparency, stewardship, and good governance across all sectors of the economy is a precondition for a sustainable and productive economy.

High quality financial reporting (incorporating non-financial elements where relevant) which informs users' decision-making is fundamental to effective public accountability, transparency, stewardship and good governance, building a more sustainable and productive economy and high quality investment into all regions of New Zealand. To achieve this, financial reporting needs to be of a quality that engenders user confidence in the information received; assists entities to communicate their performance and enhances transparency, accountability and stewardship. In this way high quality reporting contributes directly to the Government's goals for New Zealand.

High quality financial reporting can be achieved only if the rules on which it is based (reporting 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 financial reporting and

assurance standards. It is through the issuing of such standards that the XRB contributes to the Government's goals.

Because the financial statements are primarily backward looking, they cannot fully explain an entity's long-term strategy. Elements that may be essential to long-term strategy often escape the financial statements, such as its business model, its intangible resources, the economic environment in which it operates, and more forward-looking information. The XRB expects changes and developments in external reporting resulting from the demand for entities to report more widely about their strategies, business models, risks and impacts, financial capital and other matters (e.g. environmental, social, governance). Entities are expected to provide users with a more comprehensive picture of their performance and impacts by complementing their financial results reporting with non-financial information. The XRB plans to continue leading the development of extended external reporting (EER) in New Zealand. This includes engaging with key stakeholders in the public sector as EER relates to reporting Wellbeing and the Living Standards Framework and in the private sector as developments evolve in EER to consider climate related financial disclosures. The XRB aims to engage with key stakeholders to consider the need for standards and guidance in such areas as integrated reporting and disclosure of risks such as those related to climate change. The XRB recognises the importance of actively engaging with Māori, particularly on the topic of EER.

In the area of audit and assurance there is considerable international and domestic activity examining trust and confidence in financial reporting, including audit quality and the independence of audit firms. The XRB plans to monitor closely developments coming out of a series of reviews in the United Kingdom and also the Australian Parliamentary inquiry and work with the key stakeholders in the financial reporting supply chain to consider how the issues identified in these international reviews could impact in New Zealand.

Besides ensuring that the accounting standards framework remains fit-for-purpose and meets user needs, the XRB will consider the most effective way to invest its resources in respect of its international and domestic influencing strategies.

Accordingly, the XRB's outcome is:

The establishment and maintenance of financial reporting and audit and assurance standards that:

- engender confidence in New Zealand external reporting across all sectors;
- promote high quality decision making;
- assist New Zealand entities to communicate their performance;
- enhance entities' transparency, accountability and stewardship to stakeholders, and
- support high performing and accountable organisations in both the private and public sector.

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

Figure 1: XRB Outcome Framework



The XRB considers that this outcome continues to reflect the XRB's overall contribution to building a more sustainable and productive economy. Accordingly, the XRB has reaffirmed this outcome for the 2020 - 2025 period.

In line with the responsibility of the XRB to develop and implement strategies for the organisation's overall direction, the Board will also investigate the need to provide standards and guidance that will provide a suitable basis for all entities to extend external reporting to ensure the integration of financial and non-financial reporting.

2.3 Strategic Priorities 2020 - 2025

The strategic priorities for the XRB for 2020 - 2025 can be summarised as follows:

Broad Strategic Approach:

- Maintaining the existing financial reporting strategy including the two-sector, multi-standards, multi-tier Accounting Standards Framework;
- Continuing, as appropriate, the convergence and harmonisation approach for both accounting and auditing and assurance standards;
- Responding to the changing international standard setting environment and external reporting landscape, and
- Working with stakeholders to consider the mandate of the XRB in the setting of EER standards and guidance.

Broad Output Priorities:

Our priorities are to:

- Manage our outputs (subject to the changes from the international standard setting boards) by following a clearly articulated due process that focuses on consultation and engagement;

- 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;
- Facilitate debate, provide thought leadership, participate in appropriate forums, issue guidance if considered necessary and generally promote improved reporting processes. This promotion activity will have a focus on: Service Performance Reporting, Alternative Performance Measures (APM's) from a user's perspective, Extended External Reporting (EER) including Wellbeing reporting, and Management Discussion and Analysis requirements and XRB responses to the COVID-19 pandemic response.

Broad Delivery Mechanisms:

- Seek to influence the work of the international boards through the establishment of "influencing strategies" specific to each international board;
- Continue to develop standards with, rather than to/for, the constituency by establishing and implementing engagement strategies and approaches to further 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;
- Effective use of communication technologies in awareness raising activities including but not limited to, our website, newsletters, digital presentations (such as webinars), and digital networks;
- investigate, in collaboration with key stakeholders, the need to extend the XRB's mandate in regard to Extended External Reporting (EER) to ensure New Zealand keeps up with emerging international trends and developments in reporting non-financial information, such as Integrated Reporting (IR), to complement the disclosure of financial information;
- Actively support other relevant organisations to provide appropriate training and professional development activities relating to financial and non-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 such as emerging matters and gaps being identified as a result of the COVID-19 pandemic.

Part 3: Functions and Capability 2020-2025

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 undertake to give effect to the strategic intentions outlined in Part 2.

The XRB will be considering with key stakeholders a change to its mandate under S17(2) of the FRA to enable it to set financial reporting standards in the area of EER. If the mandate is extended, the scope, output class and outputs outlined below will most likely need to change.

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

The intended scope of XRB activities over the 2020-25 period is consistent with its statutory functions and is as follows:

Financial reporting and audit & assurance standard setting, and associated strategy setting functions.

The XRB intends to impact its outcome goal 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 period:

Output 1: Reporting Strategy;

Output 2: Preparing and issuing Financial Reporting Standards; and

Output 3: Preparing and issuing Auditing & 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. We have developed a chart showing how we create value. This chart is included at Appendix 1 of this Statement of Intent.

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 the following sections.

3.3 Management of Functions and Operations to Meet Strategic Intentions

3.3.1 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 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 its trade dependent economy and the globalised financial reporting environment that now exists. International events and pressures are reflected in the work of the international standard setting boards. In this way, New Zealand standards are reflective of the international environment.

This convergence approach is important in all sectors.

The XRB Board also considers harmonisation with Australian standards to be important given both Government policy and the number of for-profit entities that have trans-Tasman reporting obligations. The XRB will therefore continue to work closely with its Australian counterparts as appropriate.

The primary focus of the XRB during the 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 their degree of impact on the achievement of the XRB's outcome goal. The strategic priorities outlined in section 2.3 are designed to focus attention on aspects of output production that the XRB considers are particularly important to enhancing outcome achievement.

3.3.2 Broad Output Priorities

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

Maintaining Existing Standards

The maintenance of standards is an on-going process. 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 standards issued by the XRB are therefore heavily influenced by the output of the international boards.

In addition, the XRB Board and its standard setting boards provide comments on relevant exposure drafts and other documents issued for comment by the international boards. This reflects the XRB's statutory obligation to work with international standard setting bodies. It is also consistent with the XRB Board's strategy of seeking to influence international standards.

An important part of the "standards maintenance" activity during the next strategic period 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.

The XRB Board's view is that overall the suites of financial reporting and auditing & assurance standards are good, relatively comprehensive and robust. However the XRB will also seek 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.

The XRB has currently set up a working group to identify and address issues which are arising in relation to financial reporting and auditing of entities as a consequence of the economic impact attributable to the COVID-19 pandemic.

User-needs Research

The XRB Board is keen to ensure that user-needs are firmly at the forefront of standard setting in New Zealand in the future. It is also keen to promote high quality reporting of information by entities to meet those user-needs.

Research allows the XRB to work behind the scenes during this period gathering empirical evidence to inform future decisions about how to enhance XRB standards, what areas the XRB should be encouraging the international boards to address, and as a basis for empirical-based discussions with the international boards.

The XRB Board acknowledges the international difficulties (accessing an appropriate population) experienced in conducting research into user-needs. However, the Board considers that New Zealand's relatively small size and the nature of the New Zealand market-place are likely to make at least some user-needs research possible in our context. The XRB Board's intention is that the research will focus on both what users need and do not need, including any information currently being reported that is not needed.

Post-implementation Review

Post implementation Review is an important step in the due process to ensure that pronouncements issued have had the intended result. The XRB will continue to undertake post implementation reviews as appropriate.

3.3.3 Broad Delivery Mechanisms

Influencing International Boards and their oversight bodies

The XRB Board's convergence strategy means the strategy of seeking to influence the international boards, and the oversight bodies that oversee those international boards, will continue to be important.

The XRB's efforts to influence the international boards, and their oversight bodies, aims to be deliberate, coherent, constructive, and focused on topics of greatest importance to New

Zealand. Accordingly, the XRB Board intends to enhance its influencing strategies based on two broad (and interconnected) approaches, relationships and participation:

- *Relationships:* The XRB intends to work further to build relationships with the international boards (and related organisations) at both board member and staff levels.
- *Participation:* The XRB will continue in its efforts to support the work of the international boards (and related organisations) This will include involvement in activities promoted by the international boards, contributing to technical or regional groupings to contribute to the work of those boards, participating in the work of the boards (through, for example, assistance with projects).

Where appropriate, the XRB will also seek to directly influence the international boards. Maintaining good relationships with other standard setters and relevant groups will be important in achieving this. In addition, the XRB Board will nominate and support suitably qualified individuals for appointment to the membership of key international boards.

Constituency Engagement

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

The XRB has a statutory obligation to consult with constituents before issuing financial reporting 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 organises seminars, webinars, podcasts and publishes articles and newsletters on a wide range of matters that are the subject of exposure drafts or discussion papers. The XRB Board also hold general discussions with key constituent groups about broader financial reporting matters.

The External Reporting Advisory Panel (XRAP), another vehicle for gathering the views of constituents, meets twice each year and actively contributes ideas to XRB Board deliberations on various matters².

² The XRAP consists of around 20 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. 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 financial reporting environment in New Zealand;
- The New Zealand standard setting framework;
- Projects on the boards' agendas; and
- Practical application and implementation issues.

Awareness Raising and Facilitation

An important aspect of the XRB's awareness raising and facilitation is to ensure constituents understand the reasons for, benefits to be achieved, and costs of any changes to standards frameworks, new standards or amendments to existing standards.

However, this should not extend to training on how to apply the standards, professional development training, or education of a general nature. While the XRB Board recognises these activities are important to achieving outcomes of concern to the XRB, it considers its role is to facilitate and encourage relevant organisations to undertake such training activities.

The XRB will work actively with the Ministry of Business, Innovation and Employment, the Financial Markets Authority, the Reserve Bank, Treasury and others to ensure the linkages between the work of relevant agencies (in both the financial reporting and auditing & assurance areas) are clearly identified and any gaps addressed.

The XRB has recently promoted the awareness, understanding and implementation of EER among New Zealand constituents. This is to ensure New Zealand keeps up with emerging international trends and developments in reporting non-financial information to complement the disclosure of financial information. The XRB will investigate with key stakeholders the need to expand the XRB's mandate in this area.

3.4 Organisational Health and Capability

Overview

The XRB's strategic ownership priorities for the 2020-2025 period are to:

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

Financial Management

The XRB is very conscious of 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 available funding, that being its annual appropriation plus any retained earnings;
- Continue to promote a value for money culture within the XRB organisation; and

- Develop a clear and well-articulated Vote bid for the period commencing 1 July 2021 in order to ensure that current activity levels can be maintained.

Capability

The XRB's capability objective is to:

- Retain a full, or 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 \$228,000 on 30 June 2020). This is mostly office furniture and computer equipment. The XRB's strategy is to maintain this physical capital through an on-going asset replacement and infrastructure improvement 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 personnel, data and records.

High Performance Culture

From its establishment in 2011 the XRB has worked to establish a high performance, financial prudent culture within the XRB organisation. The XRB considers this to be an area requiring on-going effort 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 ensuring value for money;
- promote its continuous improvement culture; 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

Many factors influence the achievement of the Government's Goal, the Linking Outcome and the XRB Outcome during the year. Many of these are outside the control or influence of the XRB. For example, entity performance is influenced by a whole range of factors including regulatory settings, labour market pressures, and exchange rates, in addition to the effectiveness of the XRB standards.

The links between XRB's Outputs, Outcome and the Government's Overarching Goal are not always causal and/or direct.

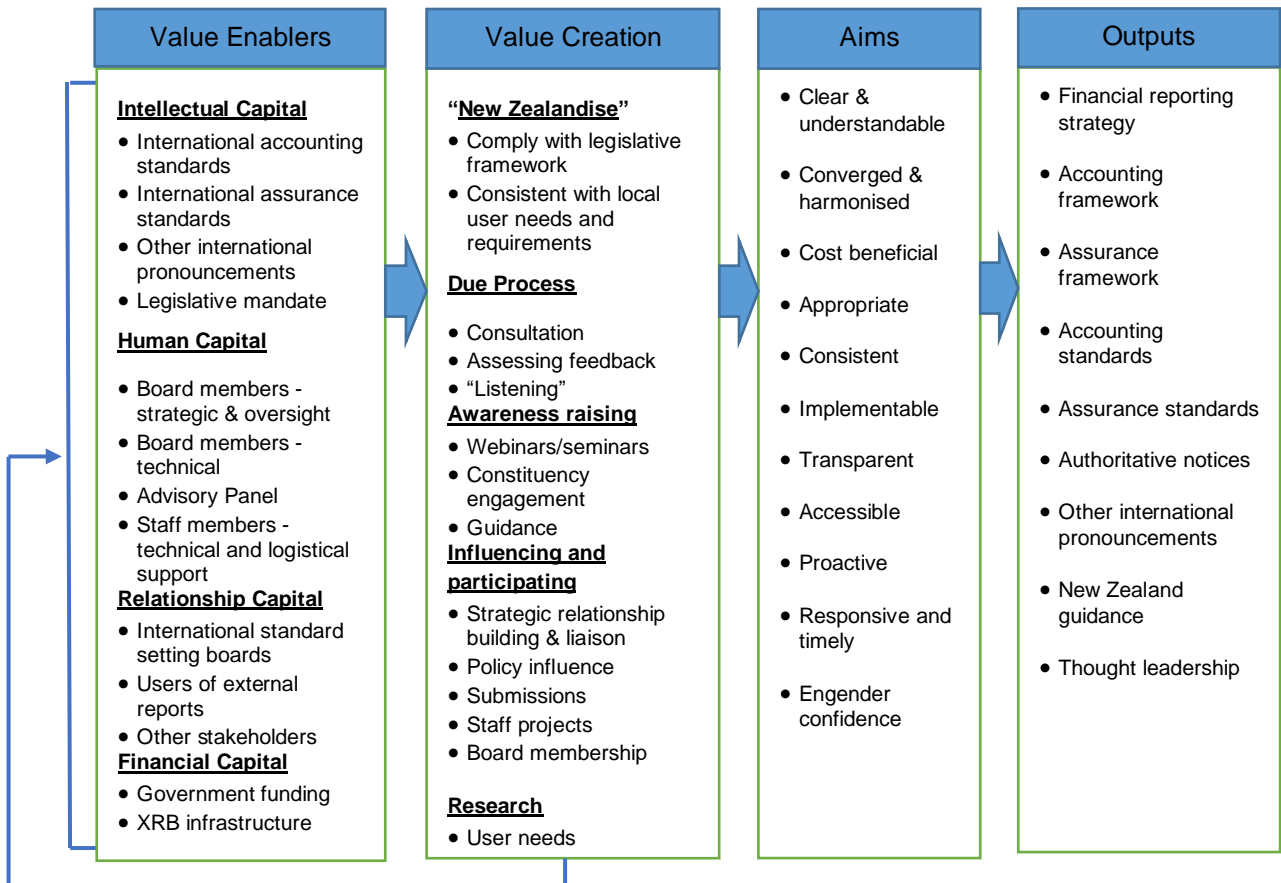
Notwithstanding the attribution problems associated with outcome-based performance measurement, the XRB is motivated to positively influence the outcomes and significant effort is applied to achieving this – as outlined in the section above. The Boards and staff are aware of and focused on these outcome objectives, including being alert to possible output changes to enhance outcome attainment. Accordingly, the XRB does monitor likely outcome contribution through cost effective means, principally externally generated measures and studies. This includes monitoring the state of financial reporting through information available from such bodies as the Companies Office, the Financial Markets Authority (FMA), the Office of the Controller and Auditor-General (OAG) and Charities Services of the Department of Internal Affairs (DIA), as well as information in the public domain. 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 are consistent with and contribute to 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 five-year period. No process is therefore required to be specified in accordance with section 100 of the Crown Entities Act 2004.

Appendix 1: 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 delivered that are consistent with our value adding model and contributing to our outcome goal.