



**EXTERNAL REPORTING BOARD**

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*Te Kāwai Ārahi Pūrongo Mōwaho*

## **Annual Report**

**For the year ended 30 June 2013**

Presented to the House of Representatives in accordance with  
section 150(1) of the Crown Entities Act 2004



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## Part 1: Board Overview



## Introduction

The External Reporting Board (XRB or Board) is an independent Crown Entity, established under section 22 of the Financial Reporting Act 1993, and subject to the Crown Entities Act 2004.

This annual report for the year ended 30 June 2013 has been prepared and presented in accordance with sections 150(1) and 154 of the Crown Entities Act 2004. It reports against the Board's Statement of Intent for the year.

The XRB came into existence on 1 July 2011 when it was reconstituted from the Accounting Standards Review Board (ASRB) following amendments to the Financial Reporting Act 1993. This report therefore covers the second year of the XRB's operations.

## Board Members

Under the Financial Reporting Act 1993, the Board is required to consist of not less than four, nor more than nine, members appointed by the Governor-General on the recommendation of the Minister of Commerce. Members are required to be qualified for appointment by reason of their knowledge of, or experience in, business, accounting, auditing, finance, economics or law. Members are appointed for a renewable term of up to five years.

The Board Members over the past year are listed in the Appendix to this Annual Report.

## Functions of the XRB

The Board's functions are established by Section 24 of the Financial Reporting Act 1993<sup>1</sup> and are as follows:

- Developing and implementing an overall strategy for financial reporting standards (both accounting and auditing and assurance standards), including developing and implementing tiers of financial reporting);
- Preparing and issuing accounting standards, and giving directions as to the accounting policies that have authoritative support within the accounting profession in New Zealand;
- 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 performance framework developed by the Board to give effect to these functions is outlined in Part 2 of this Annual Report.

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<sup>1</sup> The Financial Reporting Bill 2012 currently before Parliament will replace the Financial Reporting Act 1993 when enacted. The functions of the Board under the Bill are not significantly different from those in the Act.

## Organisational Structure

The Board has established two standard setting boards to assist it to undertake its functions:

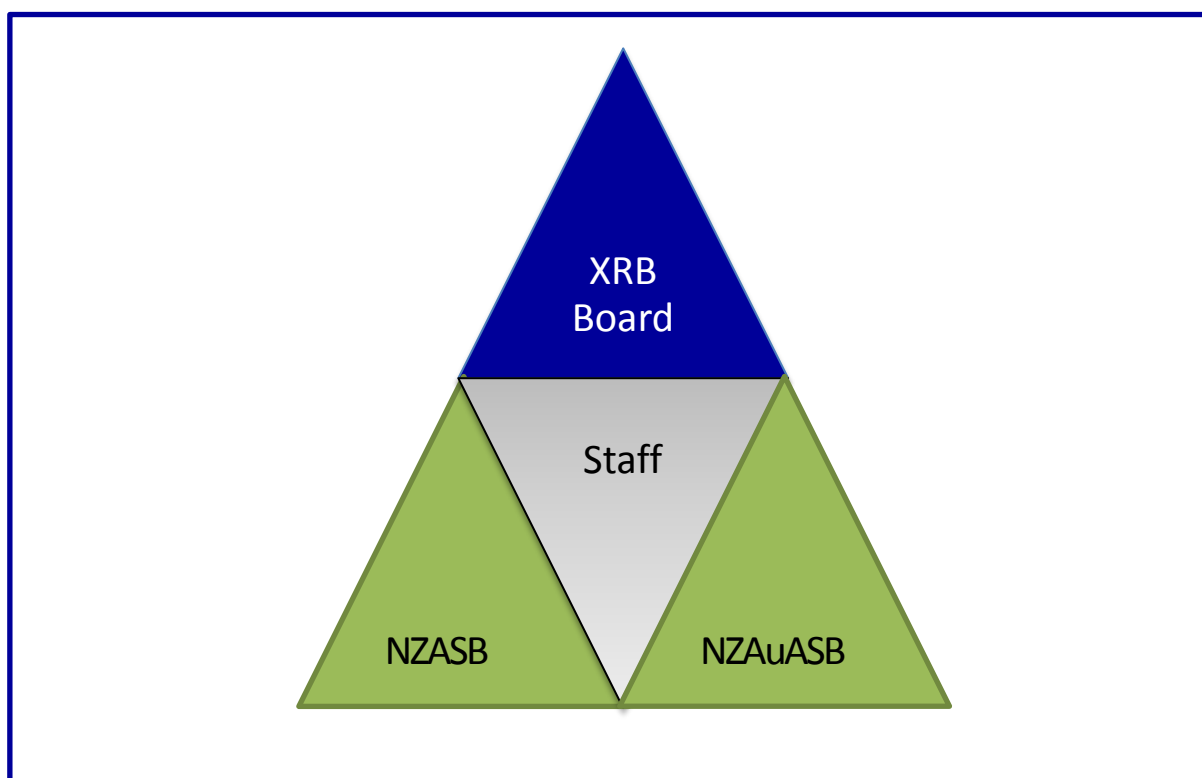
- The New Zealand Accounting Standards Board (NZASB) is responsible for accounting standard setting; and
- The New Zealand Auditing and Assurance Standards Board (NZAuASB) is responsible for auditing and assurance standard setting.

These two standard setting boards are Committees of the Board appointed in accordance with the provisions of Schedule 5 of the Crown Entities Act 2004. They are part-time, remunerated boards, and comprise up to ten suitably qualified and experienced persons with a diversity of perspective. They have delegated authority from the Board to develop and issue accounting and auditing standards respectively. The members of the two standard setting boards over the past year are listed in the Appendix to this Annual Report.

This structure is designed to not only 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.

The Board and the two standard setting boards are supported by a small staff team as illustrated in Figure 1.

**Figure 1: XRB Organisational Structure**





## Key Achievements

The XRB's main strategic focus over the year has been in the following areas:

- Implementation of the Accounting Standards Framework;
- Implementation of the Auditing and Assurance Standards Framework;
- Maintenance of the current suite of accounting and auditing and assurance standards;
- Enhancing stakeholder engagement and communications; and
- Developing capability and ensuring value for money.

The main activities undertaken in each of these areas are outlined below.

### Implementation of the Accounting Standards Framework

In April 2012, the Minister of Commerce approved a document entitled "Proposals for the New Zealand Accounting Standards Framework Incorporating the Draft Tier Strategy" (the New Accounting Standards Framework)<sup>2</sup>. This document had been submitted by the Board to the Minister in accordance with section 34A of the Financial Reporting Act 1993 and resulted from an extensive development and consultation process that had been begun by the ASRB in 2009.

The New Accounting Standards Framework establishes a multi-standards, multi-tier approach to financial reporting in New Zealand. During the year, a large amount of effort has gone into the implementation of the New Accounting Standards Framework. This has built on the work undertaken in the previous financial year.

During the year the following key activities occurred:

- *Finalisation and issue of the standards that will apply to for-profit entities.*

The for-profit aspects of the New Accounting Standards Framework involve two tiers plus two additional temporary tiers<sup>3</sup>. The standards relating to these tiers were issued in November 2012, following a consultation process that occurred in the 2011/12 financial year.

The new for-profit standards were effective for periods beginning on or after 1 December 2012. They allow a significant number of entities that were previously reporting in accordance with full New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) to elect to report in accordance with a reduced disclosure version of those standards (NZ IFRS RDR). This has the potential to significantly reduce reporting compliance costs for these entities. It also completed the process of harmonising the for-profit standards with Australia.

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<sup>2</sup> The approved document is available on the XRB website: [www.xrb.govt.nz](http://www.xrb.govt.nz)

<sup>3</sup> The temporary tiers relate to entities that are expected to no longer have to prepare general purpose financial statements once the Financial Reporting Bill 2012 is enacted.

- *Consultation, finalisation and issue of proposed PBE Standards for public sector entities.*

A package of 40 proposed new “PBE Standards” that will apply to Tier 1 and Tier 2 public sector public benefit entities (PBEs) was issued for consultation in June 2012 with submissions due in December 2012. As this is a completely new set of standards, an extensive consultation process was undertaken across the wider public sector (both central and local government) as well as with the constituency as a whole. This was designed to assist constituents understand the proposals as well as encourage submissions on the package.

Following consideration of submissions, the public sector PBE Standards were finalised and issued in May 2013. They are effective for periods beginning on or after 1 July 2014, which for most public sector entities is the 2014/15 financial year.

- *Development of Simple Format Reporting Standards*

The New Accounting Standards Framework provides for PBEs in Tier 3 and Tier 4 to report using a simple format reporting approach. This is a new, innovative approach designed to ensure appropriate reporting while reflecting the relative costs and benefits of general purpose financial reporting by entities of this size.

During the year two packages of Simple Format Reporting Standards (one for not-for-profit entities and one for public sector entities) were issued for comment. This followed an extensive development process which included some “pre-consultation” with organisations from the not-for-profit sector.

An extensive communication and consultation programme was undertaken during the first half of calendar year 2013. This included a seminar series conducted throughout the country aimed at registered charities and other not-for-profit organisations.

Submissions on the public sector simple format reporting standards closed in March 2013. Submissions on the not-for-profit simple format reporting standards closed in June 2013. The submissions are currently being considered by the NZASB and it is expected that the respective standards will be finalised and issued in late 2013.

- *Development of proposed PBE Standards for not-for-profit entities.*

During the year work also commenced on enhancing the PBE Standards for Tier 1 and Tier 2 PBEs so that they are applicable to not-for-profit entities. This is the final set of new accounting standards necessary to complete the implementation of the New Accounting Standards Framework. Consultation drafts of the proposed PBE Standards for not-for-profit entities are expected to be issued in late 2013 with a view to them being finalised and issued in mid-late 2014.

## Implementation of the Auditing and Assurance Standards Framework

When it came into existence on 1 July 2011, the Board approved a suite of auditing and assurance standards. In accordance with the provisions of the Financial Reporting Act 1993, this suite comprised the standards which were the same, or substantively the same, as the standards on issue by the New Zealand Institute of Chartered Accountants at that time. However, a small number of these standards, particularly the Professional and Ethical Standards, and the Review Standard, were not consistent with international standards.

Accordingly, the Board established an Auditing and Assurance Standards Framework to guide prioritisation of work effort. Key elements of this Framework are converging (bringing into line) New Zealand standards with international standards; and harmonising the New Zealand standards with those in Australia.

Work on these strategic priorities was progressed in the 2011/12 financial year and culminated in a revised set of Professional and Ethical Standards being finalised in December 2012 and issued in January 2013. These are now fully converged with the equivalent international standards.

Exposure drafts for two new Review Standards, converged with the international standards were released in February 2013. Submissions on these proposed Standards closed in May 2013. After considering the submissions the NZAuASB finalised and issued these Standards in August 2013. This means that New Zealand auditing and assurance standards are now fully converged with international standards.

During the year significant progress was also made on harmonising auditing and assurance standards with Australia. An exposure draft proposing amendments to New Zealand standards to bring them into line with relevant aspects of Australian standards was issued in April 2013 with submissions due in July 2013. Further, additional explanatory guides which mirror equivalent Australian documents were developed during the year. The NZAuASB has also been working with its Australian counterpart to establish protocols and processes to ensure harmonised standards are maintained in the future.

## Maintenance of Current Standards

In addition to the work undertaken to progress the new standards frameworks, the existing suites of standards have also been maintained during the year. This involves issuing in New Zealand exposure drafts and standards developed by international standard setting bodies that are relevant in the New Zealand context. Those international boards are the International Accounting Standards Board (IASB), the International Public Sector Accounting Standards Board (IPSASB), the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA).

All relevant pronouncements from these Boards have been issued in the appropriate form during the year.

In addition the XRB, NZASB and NZAuASB have provided comment on relevant exposure drafts and other documents issued for comment by the international boards, and by the International Integrated Reporting Committee (IIRC). This included comment on the IPSASB's conceptual framework exposure drafts, and the IAASB's proposals to enhance the content of audit reports - both very significant initiatives.

During the year the NZASB also commenced a project to develop a standard on Service Performance. The need for a standard in this area has been evident for some time and the Board and NZASB have both assigned this project high priority. The need for greater guidance is also necessary as a result of amendments to the Public Finance Act 1989 and the Crown Entities Act 2004 currently being considered by Parliament.

In accordance with the Board's strategy of seeking to influence international standards during their development phase, the XRB has also actively contributed to a project being undertaken by the IPSASB to enhance the standards relating to control.

Also during the year the XRB:

- Supported the work of the New Zealand member on the IPSASB;
- Attended relevant meetings of international standard setter groups, including the Asia-Oceania Standard Setters Group (AOSSG), the IFRS Regional Policy Forum, the IASB World Standard Setters meeting and the IAASB National Standard Setters meeting;
- Contributed to the standard setting work of the AOSSG and (via the AOSSG) the IASB's Accounting Standards Advisory Forum (ASAF); and
- Participated in trans-Tasman co-ordination initiatives, including the Trans-Tasman Accounting and Auditing Standards Advisory Group (TTAASAG), and through the appointment of Board members as members of the Australian Financial Reporting Council, Australian Accounting Standards Board, and the Australian Auditing and Assurance Standards Board.

## Stakeholder Engagement and Communications

The XRB has a statutory obligation to consult with the constituency before issuing accounting or auditing and assurance standards. The Board is fully committed to following appropriate due process and considers this an essential part of the standard setting process.

However, the Board considers that the XRB's engagement with its constituency (affected groups such as preparers and users of financial statements as well as the New Zealand accounting profession) needs to be meaningful and proactive. A strategic priority for the XRB organisation is therefore to maintain a regular dialogue with key stakeholder groups.

During the year extensive consultation was undertaken over accounting and auditing and assurance standards that were the subject of exposure drafts. This included seminars, round-table sessions, webinars, podcasts, professional journal articles, and one-on-one or small group discussions.

The External Reporting Advisory Panel (XRAP), another vehicle for harnessing the views of the constituency, also met three times during the year and actively contributed ideas and perspectives to XRB deliberations<sup>4</sup>.

Both the XRB and its two standard setting sub-boards continued to undertake the majority of the non-governance part of their meetings in open session during the year. Members of the public are able to attend as observers during the open sessions and each board held at least one meeting in Auckland during the year to allow that part of the constituency to attend if they wished (the remaining meetings were held in Wellington). In addition the agenda papers for the open part of the meetings are available for download from the XRB website ([www.xrb.govt.nz](http://www.xrb.govt.nz)) as are the relevant minutes.

A significant revamp of the XRB website was undertaken during the year. This coincided with the release of the new for-profit accounting standards and the new PBE accounting standards. The revision to the website includes decision-trees designed to assist users identify the suite of standards applicable to their organisation.

## Developing Capability and Ensuring Value for Money

The 2012/13 financial year is the second year of the XRB's operations. Unlike the previous year (for which the focus was transition and establishment), the main operational focus has been on ensuring that the XRB organisation is operating in a "steady-state" mode.

An initial priority was the appointment of staff to remaining vacant positions – something that was achieved early in the year. The organisation was fully staffed for the majority of the year.

The Board is very 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 continues to be promoted within the organisation. In keeping with this, during the year the Board returned to the Crown (rather than retained) its 2011/12 operating surplus of \$1.065 million. This was in addition to the return of \$470,000 of capital made in the 2011/12 financial year.

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<sup>4</sup> The XRAP consists of around 15 senior level persons who are individuals with strong networks that enrich their advice to XRB, or representatives of organisations, interested in the development of high quality accounting standards and auditing and 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 external reporting environment in New Zealand;
- The New Zealand standard setting framework;
- Projects on the Boards' agendas; and
- Practical application and implementation issues.

## Looking Forward

In the Board's view a significant amount has been achieved during the year – particularly in relation to implementing the New Accounting Standards Framework; and in converging auditing and assurance standards with international standards and in ensuring that they are harmonised with Australian standards.

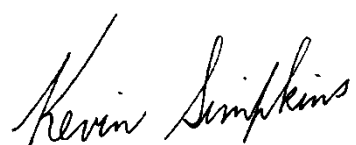
The work necessary to give effect to the Board's initial strategy - the New Accounting Standards Framework and the Auditing and Assurance Standards Framework – is expected to be completed during the 2013/14 and 2014/15 financial years. This will be the end of a significant period of change in accounting and auditing and assurance standards and the Board's view is that a "period of calm" is desirable for a year or two after that.

Notwithstanding this, it will be necessary to continue to maintain the suites of existing standards to ensure that they reflect international standards' developments. Further, the implementation of the new standards frameworks merely establishes a new multi-standard platform for the future. The Board has commenced a strategic planning process to identify how and when the standards should be enhanced in the future to better meet user needs, something that is necessary "to give life to the framework", the establishment of which has been the focus of the XRB organisation during its first two years of existence.

## Acknowledgements

The Board would like to thank the members of its two standard-setting boards – the NZASB and the NZAuASB – and the External Reporting Advisory Panel, for their significant contribution to the work of the XRB during the year.

The Board would also like to recognise the efforts and dedication of the staff team in progressing the Board's strategic priorities during the year.



Kevin Simpkins  
Chairman



## Part 2: Performance Report





# The XRB Performance Framework

## Introduction

As part of its establishment process the Board developed an overall performance framework to guide both the organisation's strategic direction and its day-to-day operations.

The performance framework for the 2012-13 financial year was contained in the Statement of Intent for that year and is illustrated in Figure 2.

**Figure 2: XRB Outcome/Output Performance Framework**



## Outcome Goal

The Government established the following as its priorities for the 2012-13 period:

- *Responsibly managing the Government's finances;*
- *Building a more competitive and productive economy;*
- *Delivering better public services within tight financial constraints;*  
*and*
- *Rebuilding Christchurch.*

The activities of the XRB are most related to the Government's objective to *build a more competitive and productive economy*. Accordingly, this was adopted as the XRB's overarching outcome goal for the year.

A precondition for a competitive and productive 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 wider multi-sectoral context rather than in just a commercial context.

Good corporate governance requires, among other things, systems and processes that encourage the management of entities to behave in ways that are fully consistent with the interests of shareholders or other stakeholders. To that end, one of the main purposes of financial reports is to promote the accountability of the senior management of an entity to those who own it, either directly (e.g. shareholders in the case of companies or members in the case of not-for-profit entities) or indirectly (e.g. taxpayers in the case of government entities). There is often accountability to a wider range of stakeholders as well, for example debt security holders in the case of issuers of securities, service recipients in the case of public sector entities, and donors in the case of charities.

High quality financial reporting (incorporating both financial and, where relevant, non-financial elements) that informs the decision-making of stakeholders is therefore important to achieving effective public accountability and good corporate governance, and through them building a more competitive and productive economy. To achieve this, financial reporting needs to be of a quality that engenders stakeholder confidence in the information received; assists entities to compete (particularly internationally, for example by reducing the cost of funds through the use of generally recognised accounting approaches); and enhances accountability (through the transparency provided).

High quality financial reporting can only be achieved if the rules on which it is based (accounting standards) are reliable and founded 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 Board adopted the following outcome goal:

*The establishment of accounting and assurance standards that:*

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

## Outputs

The Board has defined three outputs that it will deliver in order to influence its outcome goal:

- Financial reporting strategy;
- Preparing and issuing accounting standards; and
- Preparing and issuing auditing and assurance standards.

These outputs also reflect the Board's statutory functions.

### ***Financial Reporting Strategy***

The financial reporting strategy output encompasses establishing, and then implementing, an overall standard setting strategy.

At the overall strategy level this output involves ensuring that the specific needs of New Zealand users and entities in all sectors are reflected in the reporting requirements contained in the accounting and auditing and assurance standards.

In the short-term this output involves the establishment of a new Accounting Standards Framework, and the strategic parameters for the development of auditing and assurance standards (both of which were finalised in the 2011-12 financial year). Much of the work of the XRB in 2012-13 involved the implementation of these strategies.

Over the medium-term the focus of this standard setting strategy output will be on ensuring that the accounting and auditing and assurance standards on issue are fit for purpose and are appropriately meeting the information needs of the users of general purpose financial reports across all sectors.

### ***Accounting Standards***

The accounting standard output involves developing, consulting on, issuing and amending accounting standards. This is an on-going activity of the XRB which is carried out by the New Zealand Accounting Standards Board (NZASB) within the parameters established by the XRB Board.

The new Accounting Standards Framework has had a significant impact on the number and nature of standards developed under this output in the 2012-13 financial year.

### ***Auditing and Assurance Standards***

The auditing and assurance standard output involves developing, consulting on, issuing and amending auditing and assurance standards. This is an on-going activity of the XRB which is carried out by the New Zealand Auditing and Assurance Standards Board (NZAuASB) within the parameters for those standards established by the XRB Board.

## Planned and Achieved Performance

### Purpose of this Section

This section outlines the XRB's planned performance for the 2012-13 financial year (as specified in the 2012-2015 Statement of Intent, a copy of which is available at [www.xrb.govt.nz](http://www.xrb.govt.nz)), together with a summary of the actual performance delivered compared to that planned performance. More detailed performance information for the year is provided in Parts 3 and 4 of this Annual Report.

### Outcome Goal

The XRB's outcome goal for the period was:

*The establishment of accounting and assurance standards that engender confidence in New Zealand financial reporting, assists entities to compete internationally, and enhances entities' accountability to stakeholders.*

### Contributing to the Outcomes

This outcome goal has been adopted as a de-facto mission statement for the organisation. It is used as the lens through which the organisation considers accounting standards and auditing and assurance standards issues. This means that in developing a standard (or considering an international standard for adoption in New Zealand) consideration is given to the three elements of the outcome goal: will the standard help engender confidence in financial reporting, will the standard improve entities' accountability to its stakeholders, and will it assist international competitiveness? Consideration is also given to the trade-offs between the three elements.

Some examples of how this approach has been given effect during the 2012-13 year are as follows:

- The XRB's strategy in relation to the accounting standards for for-profit entities is to adopt the international standards (International Financial Reporting Standards – IFRS) with little or no substantive change. This is to allow entities to be able to assert compliance with IFRS, thereby enabling them to raise capital in international markets at a lower cost. In considering whether to adopt proposed new IFRS in New Zealand, the NZASB must weigh up this international competitiveness benefit with the appropriateness of the standard in the New Zealand context (and the resulting confidence in New Zealand financial reporting).
- A good example of this occurred during the year when the International Accounting Standards Board (IASB) issued amendments to some IFRSs to allow the non-consolidation of certain Investment Entities. This was a contentious revision in a number of jurisdictions, including in Australia. However, the NZASB decided that, notwithstanding this, the cost of not approving the amendments (which would have meant an inability of entities to assert compliance with IFRS) outweighed any possible reduction in confidence in New Zealand financial reporting that might occur. Having explicitly considered the trade-off the NZASB approved and issued the amendments in December 2012.

- In developing the proposed accounting standards for Tier 3 and Tier 4 public benefit entities (i.e. small public sector and not-for-profit organisations) it was decided that a simple format reporting approach, contained in a single, relatively short standard for each Tier and written in non-technical language would be most appropriate. Further, “fill-in-the-box” templates were also developed for use by non-accountant preparers.
- The simple format reporting approach was developed partly to better respond to the respective costs and benefits of reporting by these small entities, and partly with the users of the financial reports in mind. The XRB recognises that many of the users of the financial reports of small not-for-profit organisations are not sophisticated users in the way, for example, financial analysts are. A simpler reporting approach is more likely to provide information understandable to not-for-profit users, thereby enhancing the accountability of these entities to their stakeholders. This philosophy has been a significant driver of the way in which the proposed simple format reporting standards have been developed.
- The presumption being followed by the NZAuASB in considering auditing and assurance standards is to adopt international standards unless *there are compelling reasons for a standard to be modified*. The presumption reflects the international competitiveness aspect of the outcome goal – readers will have more confidence in the auditor’s report if they know the audit has been conducted in accordance with international best practice (i.e. international standards). The “compelling reasons” test has been established to ensure that standards are relevant in the New Zealand context and therefore relates to the confidence in New Zealand financial reporting aspect of the outcome goal. The compelling reasons are:
  - (1) the international standard does not reflect, or is not consistent with:
    - the New Zealand regulatory arrangements; or
    - principles and practices that are considered appropriate in New Zealand (including in the use of significant terminology); and
  - (2) the standard can be modified so as to result in a standard that:
    - promotes significant improvement in audit quality in the New Zealand environment; and
    - does not conflict with, or result in lesser requirements than the international standard; and
  - (3) the relative benefits of making a change outweigh the costs (with cost primarily being compliance cost and benefit primarily relating to audit quality).

During the financial year one of the issues considered by the NZAuASB was in relation to the period that should apply to the going concern assumption.

As part of a series of enhancements contained in an exposure draft issued in April 2013, the NZAuASB proposed to extend the assessment period of the appropriateness of the going concern assumption, to approximately 12 months from the date of the auditor's current report to the expected date of the auditor's report for the next reporting period (as opposed to 12 months from the date of the financial statements). This proposal is designed to enhance the confidence in New Zealand financial reporting while maintaining international competitiveness.

### *Measuring and Monitoring Outcomes*

Despite the XRB's explicit and deliberate focus on ensuring that it is contributing to the three elements (or sub-outcomes) included in its outcome goal, measuring the change in outcome status, and the extent to which the XRB contributed to that change, is a very difficult task.

A large number of factors influence the achievement of the Government's Overarching Outcome Goal, the Linking Intermediate Outcome and the XRB Outcome Goal during the year. Many of these are outside the control or influence of the XRB. For example, international competitiveness is influenced by a whole range of factors including regulatory settings, labour market pressures, and exchange rates, in addition to XRB standards. International competitiveness indices take account of all of these factors and it is difficult to determine objectively the extent of the XRB's contribution.

Even where potentially relevant indices exist, these are usually perception based and so need to be interpreted with caution. A case in point is the Global Competitiveness Report produced by the World Economic Forum. One of the Index measures is the "strength of auditing and reporting standards", a measure that directly relates to the work of the XRB. In the 2013-14 edition New Zealand is ranked 3<sup>rd</sup> in the world with a score of 6.2 out of 7.<sup>6</sup> Although the index is based on perception, the Board considers it a potentially useful indicator of the quality of its accounting and auditing standards and therefore a measure of outcome achievement. Accordingly the Board plans to monitor and report the index over time.

These measurement problems make it difficult for the XRB to establish cost effective measures, targets and benchmark information for its outcome goal that are both meaningful and reflect the degree of influence the XRB has over these outcome i.e. that would be meaningful for accountability.

Nevertheless, the XRB will report information that relates to its outcome goal where the Board is aware of such information. The Global Competitiveness Report index outlined above provides one such piece of information in relation to one element of the XRB's outcome goal. To date, cost effective measures for the other two elements of the outcome goal have yet to be identified.

In addition, at a more operational level the XRB monitors likely outcome contribution through available information. This includes monitoring the state of financial reporting through information available through such bodies as the Companies Office, the Financial Markets Authority (FMA) and the Office of the Auditor-General, as well as information in the public domain. This provides some information about the quality of (and therefore the confidence in) financial reporting in New Zealand.

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<sup>6</sup> [http://www3.weforum.org/docs/WEF\\_GlobalCompetitivenessReport\\_2013-14.pdf](http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2013-14.pdf); Index 1.18 on page 427.

Regular engagement with the constituency at the general level (rather than in relation to a specific standard) also provides an indication of the degree of comfort and confidence in New Zealand financial reporting and any international competitiveness issues that might be arising from XRB standards.

This monitoring provides an indication of the extent to which the outcome goal is being positively influenced by the XRB.

## Output Delivery

The XRB specified three outputs for the year in its Statement of Intent and Output Agreement:

*Output 1: Financial Reporting Strategy;*

*Output 2: Preparing and Issuing Accounting Standards; and*

*Output 3: Preparing and Issuing Auditing and Assurance Standards.*

All three outputs were delivered during the year and all performance measures and standards specified for those outputs were met. The extent of delivery is shown in the Statement of Service Performance provided in Part 3 of this Annual Report.

The main driver of output performance was the implementation of the New Accounting Standards Framework and the Auditing and Assurance Standards Framework (see Part 1 of this Annual Report). This is reflected in all three outputs.

The major variations to the outputs (compared to those specified in the Statement of Intent) were a higher than planned number of standards issued. Some of this variance resulted from timing differences (standards issued in early 2012/13 rather than later 2011/12); and some of the variance resulted from a higher than expected workload in the period as the Standards Frameworks were implemented. In addition some of the deliverables in Outputs 2 and 3 are dependent on the work of the international standard setting boards. The output from the international boards was higher than expected when the Statement of Intent was developed and this is reflected in the output performance for the year. The additional output was primarily funded from productivity gains and no additional costs were incurred as a result of the additional output.

## Ownership Performance

### *Scope of Business*

The XRB's planned scope of business for the year was:

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

The XRB's actual scope of business fell within the planned scope of business at all times during the year.

### *Financial Performance*

Financial statements for the year are provided in Part 4 of this Annual Report. A summary of the XRB's financial performance for the year is provided in the table below.

Financial Measure	2012/13 Budget (\$000)	2012/13 Actual (\$000)
<i>Revenue</i>	4,453	4,480
<i>Expenses</i>	4,410	3,872
<i>Operating Surplus</i>	43	608
<i>Equity</i>	778	1,345
<i>Net Cash Flows from Operating</i>	275	642
<i>Net Decrease in Cash</i>	(410)	(119)

### *Operating*

The reasons for the major variations in specific expense items are outlined in Note 23 to the financial statements.

An operating surplus was generated during the year. This resulted from cost savings against budget across most expenditure categories. Forward budgets indicate that this surplus will reduce to a close to breakeven position in future years as the XRB moves to the next phase of its development.

The Board proposes to retain the surplus to fund future one-off expenses, such as research into user-needs for financial reports.

### *Capital Expenditure*

The XRB's capital expenditure for the year was \$15,030. The Board does not expect there to be significant capital expenditure in future years.

### *Acquisitions*

The XRB did not acquire shares or interests in companies, trusts or partnerships or joint ventures during the period.

### ***Organisational Capability***

The key capability initiatives planned for, and achieved during, the year are outlined in the table below. In summary, all the capability initiatives were achieved.

2012/13 Budget	2012/13 Actual
Establishing and retaining a near full complement of suitably qualified staff	A full complement of suitably qualified staff was in place during the financial year.
Maintaining full operational capability in the Wellington and Auckland offices	Both the Wellington and Auckland offices are at full operational capacity and have been for the entire financial year.

### ***Management of Organisational Risks***

The XRB's key risk management initiatives planned for the year, together with the actions taken in the year, are outlined in the following table.



Risk	2012/13 Budget	2012/13 Actual
<i>Loss of property and equipment</i>	<i>Insurance of property, plant and equipment</i>	Insurance cover acquired
<i>Loss of key staff</i>	<i>Cross training</i>	Cross training in progress
<i>Loss of key data and records</i>	<i>Off site backup</i>	In place

## Other Matters

### Employer Information

#### *Workforce Profile*

During the year the XRB employed one new permanent staff member. There was one resignation from a permanent staff member just prior to year end, who left our employment in the new financial year.

The XRB's workforce profile is as follows:

Workforce component	2012/13
Employees	15
Part-time	14%
Women	85%
Women in Management Team	75%
Non-Pakeha Ethnicity	40%
Maori	0%
Pacific	0%
Employees with Disabilities	0%

#### *Good Employer Information*

The XRB is an equal opportunity employer and supports and endorses the principles underlying equal opportunity and good employer legislation. The XRB values its employees who are its key resource, and strives to provide a caring, supportive and parent friendly environment which provides equal opportunities for all.

With respect to the seven key elements of being a good and equal opportunity employer the XRB reports as follows:

#### *Leadership, Accountability and Culture*

As a new entity the XRB has had the unique opportunity to develop the vision and culture of the organisation from the very start. In doing so the XRB has deliberately established a culture which embraces the "one team" concept. We value hard work, working together as "one team" and celebrating our successes.

Accordingly, all members of the staff team are involved in the creation of the vision, the establishment of work programmes and priorities, the sharing of team achievements, and participating in shaping the future of the organisation.

#### *Recruitment, Selection and Induction*

The XRB operates open and public recruitment processes. Candidates of varying skills and backgrounds are encouraged to apply. The XRB appoints staff solely on the basis of qualifications, experience, understanding of the standard setting process and ability to operate within the one team organisational culture. The XRB does not consider age, ethnicity, gender or physical disabilities as part of the appointment process. Nevertheless the staff team is ethnically, gender and age diverse; comprises a majority of women; and includes women in the majority of the senior leadership roles.

All new employees undergo an induction process to ensure that they are given the best possible introduction to their role and responsibilities, and the organisational culture of the XRB.

#### *Employee Development, Promotion and Exit*

There is a high degree of interaction between persons in senior leadership roles and other staff. This is designed, amongst other things, to assist with the development of all staff. In addition a deliberate, organised mentoring approach to develop the standard setting skills of staff with less standard setting experience is operated.

The technical and personal development and training of all staff is encouraged and supported. The XRB considers such development to be an essential part of maintaining standard setting capability as well as being necessary for personal motivation and engagement of individual staff members.

A formal process of establishing annual performance agreements and undertaking annual performance reviews (as well as informal performance discussions during the year) is operated. This forms the basis for on-going dialogue between managers and staff and is also used as the basis for addressing good and poor performance, including remuneration reviews.

#### *Flexibility and Work Design*

The XRB operates in three geographical areas to ensure that we are able to recruit and retain the best possible staff regardless of their location. The organisation has two part time staff members and permits staff to work remotely where appropriate. The XRB is output rather than input focused and operates a policy of flexible hours designed to accommodate the needs of its staff.

#### *Remuneration, recognition and conditions*

Staff salaries are reviewed by the Chief Executive on an annual basis, taking into account individual performance, market conditions, and any advice from the State Services Commission relating to remuneration setting. External providers are used to provide job sizing and market data to ensure that remuneration is market related.

The XRB's gender pay gap (excluding the Chief Executive) is 7% (7% in favour of men). The gender pay gap for the staff involved in standard setting (the main professional group in the XRB) is -2% (or 2% in favour of women).

#### *Harassment and Bullying Prevention*

The External Reporting Board has zero tolerance for any form of bullying or harassment, and is not aware of any instances of bullying and harassment during the financial year. Policies and procedures covering harassment and bullying are in place.

#### *Safe and Healthy Environment*

The XRB promotes a positive work environment that celebrates events in peoples lives and encourages healthy, positive interaction between staff members.

The XRB is committed to ensuring that staff are kept safe and healthy. The External Reporting Board has trained first aiders and fire wardens. All offices have a civil defence emergency kit and all staff are encouraged to be prepared in the event of a natural disaster. Workplace assessments, and appropriate desk equipment, are provided to ensure employee's comfort at their desks.

All staff are encouraged to take their annual leave in the period they earn it. Staff are also able to access a confidential Employee Assistance Program.

### **Other Information Required by the Crown Entities Act 2004**

In relation to the requirements of section 151 of the Crown Entities Act, 2004:

- The Board was not given any direction by a Minister under any enactment during the financial year;
- The Board did not undertake any transactions that were in breach of statute but validated in accordance with section 20 of the Crown Entities Act, 2004;
- The Board did not grant permission to any Board Member to act despite being interested in a matter in accordance with section 68 of the Crown Entities Act, 2004.





## Part 3: Service Performance



## Statement of Service Performance for the Year Ended 30 June 2013

Output Class	2012/13 Budget	2012/13 Actual	2011/12 Actual
<b>Description</b>	Financial reporting and assurance standard setting and associated strategy setting functions	All activities undertaken during the year were within this description	All activities undertaken during the year were within this description
<b>Cost (\$000)</b>	4,410	3,872	3,396
<b>Revenue from the Crown (\$000)</b>	4,410	4,410	4,410
<b>Revenue from Others (\$000)</b>	43	70	53

<b>Output 1: Developing Financial Reporting Strategy</b>	<b>2012/13 Budget</b>	<b>2012/13 Actual</b>	<b>2011/12 Actual</b>
<b>Quantity</b>			
Number of accounting standards frameworks being implemented	1 for –profit 1 public sector 1 not-for-profit	1 for –profit 1 public sector 1 not-for-profit	N/a
Number of amendments to accounting standards Tier Strategy submitted to Minister for approval	As required; expected to be 1-2	Nil*	N/a
Number of auditing and assurance standards frameworks being implemented	1	1	N/a
Finalised financial reporting framework	N/a	N/a	Accounting Standards Framework, incorporating the Tier Strategy approved by the Minister of Commerce, issued.
Finalised reporting tiers structure	N/a	N/a	Draft Tier Strategy submitted to the Minister of Commerce and approved by the Minister.
<b>Quality</b>			
Accounting standards frameworks implemented in accordance with approved Tier Strategy	100% compliance	100% compliance	N/a
Amendments to Tier Strategy consistent with statutory requirements and consistent with the Government’s trans-tasman outcome goals (degree of consistency determined by the XRB Board).	100% consistent	No amendments required	N/a



Financial reporting framework is consistent with the Government's trans-Tasman outcome goals	N/a	N/a	Accounting Standards Framework 100% consistent. Results in harmonisation of For-profit Tier 1 and Tier 2 standards.
Tier structure is established in accordance with statutory requirements	N/a	N/a	Draft Tier Strategy submitted to the Minister 100% compliant with the legal requirements for the strategy.
<b>Timeliness</b>			
Implementation of standards frameworks	On-going throughout the year	On-going throughout the year	N/a
Amendments to Tier Strategy	As required	Not applicable	N/a
Financial reporting framework	N/a	N/a	Accounting Standards Framework finalised March 2012
Tier structure	N/a	N/a	The final statutory deadline was 31 March 2012. The draft tier strategy was submitted to the Minister of Commerce on 22 March 2012.

In addition to the above the following were also issued during the year:

- Submissions to international standard setting boards or other international organisations: 2

#### Explanation of major variances

\* No amendments were required.

<b>Output 2: Preparing and Issuing Accounting Standards</b>	<b>2012/13 Budget</b>	<b>2012/13 Actual</b>	<b>2011/12 Actual</b>
<b>Quantity</b>			
Number of exposure drafts and other due process documents issued relating to implementing the new accounting standards framework	30-40	14 <sup>+</sup>	N/a
Number of standards and related documents issued relating to implementing the new accounting standards framework	100-120	267*	N/a
Number of exposure drafts and other due process documents relating to existing accounting standards suites issued	8-12 (depending on output of International Boards)	26#	N/a
Number of standards and related documents relating to existing accounting standards suites issued	3-6 ( depending on output of International Boards)	8#	N/a
Number of projects undertaken on behalf of international accounting standard setters	1	1	N/a
Number of International Accounting Standards Board (IASB) standards and related documents issued.	N/a	N/a	8 standards emanating from the IASB were issued.
Number of other accounting standards and related documents issued	N/a	N/a	Nil: a large number of other standards were developed to exposure draft stage during the year (see below) but none were issued as final standards.
<b>Quality</b>			
Due process documents and Standards reflect approved Tier Strategy (degree of compliance determined by NZASB)	100% compliance	100% compliance	N/a

For- profit standards harmonised with Australia where appropriate	100% compliance	100% compliance	N/a
Statutory due process requirements followed	100% compliance	100% compliance	All standards issued during the year were subject to due process
Standards reflect relevant international standards with departures only to improve quality(quality improvement determined by NZASB)	100% compliance	100% compliance	All standards issued during the year reflected the corresponding international standard
<b>Timeliness</b>			
Due process documents and standards relating to the new accounting standards framework issued in accordance with timeline established by the Board	100% compliance	100% compliance	N/a
Due process documents and Standards relating to existing accounting standards suites issued in time for the commencement date to be no later than the international commencement date (where relevant)	100% compliance	100% compliance	N/a
Standards issued in time for the commencement date to be no later than the international commencement date (where relevant)	N/a	N/a	All standards issued during the year had a commencement date no later than the international commencement date.

In addition to the above, the following were also issued during the year:

- Submissions to national or international standard setting boards: 11

Explanation of major variances

+ Primarily the result of some exposure drafts being issued in the prior financial year.

\* This variance primarily resulted from the re-issue of the for-profit standards as part of the implementation of New Accounting Standards Framework.

As part of this process the previous single set of standards was re-issued as three different sets of standards: NZ IFRS/NZ IFRS RDR, NZ IFRS Diff Rep, and NZ IFRS PBE. This resulted in a greater number of accounting standards being issued than was envisaged when the budgeted amount was established. This volume is one-off in nature and is not expected to occur again in future years.

# Variances resulted from greater than expected output from the International Boards.

Output 3: Preparing and Issuing Auditing and Assurance Standards	2012/13 Budget	2012/13 Actual	2011/12 Actual
<b>Quantity</b>			
Number of exposure drafts and other due process documents relating to auditing and assurance standards issued	Expected to be 5-8 (depending on output of International Boards)	10#	N/a
Number of auditing and assurance standards and related documents issued	Expected to be 12-16 (depending on output of International Boards)	12	N/a
Number of initial standards issued on establishment	N/a	N/a	41 Auditing and Assurance Standards were carried over from the New Zealand Institute of Chartered Accountants and issued (with some non-substantive amendments) as XRB Standards in July and August 2011
Number of new International Auditing and Assurance Standards Board standards and related documents issued	N/a	N/a	Nil: No new standards were issued by the International Board during the year.
Number of Other Assurance Standards and related documents issued	N/a	N/a	Nil: No new standards were issued by the International Board during the year.

<b>Quality</b>			
Statutory due process requirements followed	100% compliance	100% compliance	All standards issued during the year were subject to due process
Standards reflect relevant international standards with departures only to improve quality (quality improvement determined by the NZAuASB)	100% compliance	100% compliance	All standards issued during the year reflected the corresponding international standard
Standards harmonised with Australia where appropriate	100% compliance	100% compliance	Not applicable
<b>Timeliness</b>			
Due process documents and Standards issued in time for the commencement date to be no later than the international commencement date (where relevant)	100% compliance	100% compliance	All standards issued during the year had a commencement date no later than the international commencement date

In addition to the documents issued (as outlined in the table), the following were also issued during the year:

- Submissions to national or international standard setting boards: 8
- Submissions to other organisations: 3

Explanation of major variances

# Variances resulted from greater than expected output from the International Boards.



# Part 4: Financial Statements





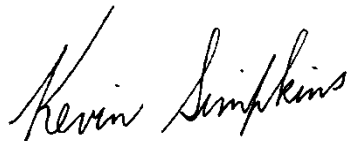
## External Reporting Board Statement of Responsibility For the Year Ended 30 June 2013

In terms of the Crown Entities Act 2004, the Board is responsible for the preparation of the External Reporting Board's financial statements and the Statement of Service Performance, and for the judgements made in them.

The Board has the responsibility for establishing, and has established, a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting.

In the Board's opinion, these financial statements and the Statement of Service Performance fairly reflect the financial position and operations of the External Reporting Board for the year ended 30 June 2013.

For the External Reporting Board  
21 October 2013



**Kevin Simpkins**  
Chairman



**Graeme Mitchell**  
Deputy Chair

## External Reporting Board Statement of Financial Performance For the Year Ended 30 June 2013

	Notes	XRB Actual 2013 \$	XRB Budget 2013 \$	XRB Actual 2012 \$
<b>Income</b>				
Revenue from the Crown	(1)	4,410,000	4,410,000	4,410,000
Interest received		69,765	43,105	53,018
Other income		480	0	0
		<b>4,480,245</b>	<b>4,453,105</b>	<b>4,463,018</b>
<b>Expenses</b>				
Personnel Costs		2,043,625	2,241,387	1,600,268
Board Fees	(2)	596,628	726,950	602,532
Travel		343,463	451,250	283,453
Contributions to International Standards Boards		300,000	300,000	275,000
General Operating Costs		213,640	269,525	196,703
Occupancy Costs		158,525	163,232	162,052
Depreciation and Amortisation	(3)	88,735	84,456	78,254
Website / IT costs		67,477	76,200	74,236
Professional Fees		40,300	55,000	98,018
Audit Fees		19,627	12,000	25,839
Miscellaneous		0	30,000	0
		<b>3,872,020</b>	<b>4,410,000</b>	<b>3,396,355</b>
<b>Surplus and Total</b>				
<b>Comprehensive Income</b>	(4)	<b>608,225</b>	<b>43,105</b>	<b>1,066,663</b>

Explanations of major variances to budget are provided in note 23.

The Statement of Accounting Policies and the Notes to the Financial Statements form part of and are to be read in conjunction with the Statement of Financial Performance.

## External Reporting Board Statement of Financial Position As at 30 June 2013

	Notes	XRB Actual 2013 \$	XRB Budget 2013 \$	XRB Actual 2012 \$
<b>Equity</b>		<b>1,345,196</b>	<b>778,413</b>	<b>1,801,971</b>
<b>Current Assets</b>				
Cash at Bank	(5)	1,344,378	915,638	1,506,904
Receivables	(6)	21,053	0	29,142
Prepayments		21,826	0	20,832
Investments	(7)	180,926	0	500,000
<b>Total Current Assets</b>		<b>1,568,183</b>	<b>915,638</b>	<b>2,056,878</b>
<b>Current Liabilities</b>				
Payables	(8)	382,963	283,414	461,772
Bank Overdraft	(9)	0	0	43,271
Employee Entitlements	(10)	118,909	123,851	88,002
Rent Incentive	(11)	14,451	14,451	14,451
<b>Total Current Liabilities</b>		<b>516,323</b>	<b>421,716</b>	<b>607,496</b>
<b>Working Capital</b>		<b>1,051,860</b>	<b>493,922</b>	<b>1,449,382</b>
<b>Non-Current Assets</b>				
Property Plant & Equipment	(12)	317,439	309,379	393,116
Intangible Assets	(13)	8,766	8,000	6,794
<b>Total Non-Current Assets</b>		<b>326,205</b>	<b>317,379</b>	<b>399,910</b>
<b>Non-Current Liabilities</b>				
Rent Incentive	(11)	32,869	32,888	47,321
<b>Total Non-Current Liabilities</b>		<b>32,869</b>	<b>32,888</b>	<b>47,321</b>
<b>Total Net Assets</b>		<b>1,345,196</b>	<b>778,413</b>	<b>1,801,971</b>

Explanations of major variances to budget are provided in note 23.

The Statement of Accounting Policies and the Notes to the Financial Statements form part of and are to be read in conjunction with the Statement of Financial Position.

## External Reporting Board Statement of Movements in Equity For the Year Ended 30 June 2013

	Notes	XRB Actual 2013 \$	XRB Budget 2013 \$	XRB Actual 2012 \$
<b>Equity as at 1 July</b>		1,801,971	1,411,156	835,308
Total Comprehensive Income		608,225	43,105	1,066,663
Capital Contribution from the Crown		0	0	370,000
Return of Retained Earnings to the Crown		(1,065,000)	(675,848)	0
Return of Capital to the Crown		0	0	(470,000)
<b>Equity as at 30 June</b>		<b>1,345,196</b>	<b>778,413</b>	<b>1,801,971</b>

The Statement of Accounting Policies and the Notes to the Financial Statements form part of and are to be read in conjunction with the Statement of Movements in Equity.

## External Reporting Board Statement of Cash Flows For the Year Ended 30 June 2013

Notes	XRB Actual 2013 \$	XRB Budget 2013 \$	XRB Actual 2012 \$
<b>Cash Flows from Operating Activities</b>			
<i>Cash was provided from:</i>			
Revenue from the Crown	4,410,000	4,410,000	4,410,000
Interest received	78,947	43,105	43,365
	<b>4,488,947</b>	<b>4,453,105</b>	<b>4,453,365</b>
<i>Cash was disbursed to:</i>			
Payments to employees	2,012,718	2,199,294	1,512,266
Payments to suppliers	1,540,332	1,678,191	1,559,968
Contributions to International Standards Boards	300,000	300,000	275,000
Net payment of Goods and Services Tax	(5,804)	0	(320,359)
	<b>3,847,246</b>	<b>4,177,485</b>	<b>3,026,875</b>
<b>Net Cash Flow from Operating Activities 4</b>	<b>641,701</b>	<b>275,620</b>	<b>1,426,490</b>
<b>Cash flows from Investing Activities</b>			
<i>Cash was provided to:</i>			
Property, Plant & Equipment	8,830	9,801	75,224
Intangibles	6,200	0	4,392
	<b>15,030</b>	<b>9,801</b>	<b>79,616</b>
<i>Cash was provided from:</i>			
Investment	319,074	0	0
	<b>319,074</b>	<b>0</b>	<b>0</b>
<b>Net Cash Flow from Investing Activities</b>	<b>304,044</b>	<b>(9,801)</b>	<b>(79,616)</b>
<b>Cash Flows from Financing Activities</b>			
<i>Cash was provided from:</i>			
Contribution from the Crown	0	0	370,000
Return of Retained Earnings to the Crown	(1,065,000)	(675,848)	0
Return of Capital to the Crown	0	0	(470,000)
	<b>(1,065,000)</b>	<b>(675,848)</b>	<b>(100,000)</b>
<b>Net Cash Flow from Financing Activities</b>	<b>(1,065,000)</b>	<b>(675,848)</b>	<b>(100,000)</b>
Net Increase/Decrease in Cash	(119,255)	(410,029)	1,246,874
Add Opening Cash Balance	1,463,633	1,325,667	216,759
<b>Closing Cash Balance</b>	<b>1,344,378</b>	<b>915,638</b>	<b>1,463,633</b>

The Statement of Accounting Policies and the Notes to the Financial Statements form part of and are to be read in conjunction with the Statement of Cash Flows

# External Reporting Board

## Statement of Accounting Policies

### For the Year Ended 30 June 2013

#### (a) Reporting Entity

The Board was established by the Financial Reporting Act 1993. All members of the Board are appointed by the Governor General on the recommendation of the Minister of Commerce.

The Board is an Independent Crown Entity under the Crown Entities Act 2004. It is responsible for financial reporting strategy, and preparing and issuing both accounting and auditing and assurance standards. This includes all the functions relating to the setting of accounting standards for entities required to comply with generally accepted accounting practice, and auditing and assurance standards for auditors providing assurance required by statute.

Accordingly, the Board is a public benefit entity for the purposes of New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS").

The financial statements for the Board are for the year ended 30 June 2013, and were approved by the Board on 21 October 2013.

#### (b) Basis of Preparation

##### *Statement of Compliance*

The financial statements of the Board have been prepared in accordance with the requirements of Section 154 of the Crown Entities Act 2004, which includes the requirement to comply with New Zealand generally accepted accounting practice ("NZ GAAP"). Specific disclosures under section 152 of the Crown Entities Act 2004 are disclosed in the notes to the financial statements.

The financial statements comply with NZ IFRS, and other applicable Financial Reporting Standards, as appropriate for public benefit entities.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

##### *Standards, amendments and interpretations issued that are not yet effective and have not been early adopted*

The Minister of Commerce has approved a new Accounting Standards Framework (incorporating a Tier Strategy) developed by the External Reporting Board (XRB). Under this Accounting Standards Framework, the XRB is classified as a Tier 2 reporting entity and it will be required to apply public sector Public Benefit Entity Accounting Standards (PAS) with Reduced Disclosure Requirements (RDR). These standards are being developed by the XRB and are mainly based on current International Public Sector Accounting Standards. The effective date for the new standards for public sector entities is expected to be for reporting periods beginning on or after 1 July 2014. This means the XRB is unable to assess the implications of the new Accounting Standards Framework at this time.

Due to the change in the Accounting Standards Framework for public benefit entities, it is expected that all new NZ IFRS and amendments to existing NZ IFRS will not be applicable to public benefit entities. Therefore the XRB has effectively frozen financial reporting requirements for public benefit entities until the new Accounting Standards Framework is effective.

Accordingly, no disclosure has been made about new or amended NZ IFRS that exclude public benefit entities from their scope.

##### *Measurement base*

The accounting principles recognised as appropriate for the measurement and reporting of results and financial position on a historical cost basis have been applied.

#### *Functional and presentation currency*

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

#### *Changes in accounting policies*

There have been no changes in accounting policies during the financial year.

### (c) **Significant Accounting Policies**

#### *Revenue*

Revenue is measured at the fair value of consideration received or receivable. Revenue is recognised when earned and is reported in the financial period to which it relates.

#### *Revenue from the Crown*

The Board is primarily funded through revenue received from the Crown, which is restricted in its use for the purpose of the Board meeting its objectives as specified in the Statement of Intent.

#### *Interest*

Interest income is recognised using the effective interest method.

#### *Cash and cash equivalents*

Cash and cash equivalents include cash on hand and deposits held at call with banks with maturities of less than three months.

#### *Debtors and other receivables*

Debtors and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Impairment of a receivable is established when there is objective evidence that the Board will not be able to collect amounts due according to the original terms of the receivable.

#### *Property, Plant & Equipment*

Property, plant and equipment consists of the following asset classes; furniture and fittings, plant and equipment, property improvements and computer equipment.

The cost of an item of property, plant and equipment is recognised as an asset only when it is probable that future economic benefits or service potential associated with the item will flow to the External Reporting Board and the cost of the item can be measured reliably.

Purchases of property, plant and equipment are initially recorded at cost.

Items of property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may overstate fair value.

Costs incurred subsequent to the initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to the External Reporting Board and the cost of the item can be measured reliably.

The costs of day to day servicing of property, plant and equipment are recognised in the surplus as they are incurred.

Depreciation is calculated so as to write off the cost over the expected useful lives of the assets from the date they are brought into use.

Straight line depreciation is charged at the following rates:

- Furniture and Fittings 10.5%
- Plant and Equipment 30%
- Property Improvements 7%
- Computer Equipment 40%

### *Intangible Assets*

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. The External Reporting Board does not capitalise any internal costs incurred in the development of software for internal use.

Costs associated with maintaining computer software are recognised as an expense when incurred.

The carrying value of an intangible asset with a finite life is amortised on a straight line basis over its' useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each financial year is recognised in the surplus. Straight line amortisation is charged on intangibles at the following rates:

- Computer Software 40%

### *Investments*

#### *Bank deposits*

Investments in bank deposits are initially measured at fair value plus transaction costs. After initial recognition investments in bank deposits are measured at amortised cost using the effective interest method, less any provision for impairment.

#### *Creditors and other payables*

Creditors and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

#### *Employee Entitlements*

##### *Short term employee benefits*

Employee benefits that are due to be settled within 12 months after the end of the period in which the employee renders the related service are measured based on accrued entitlements at current rates of pay. These include salaries and wages accrued up to balance date and annual leave earned but not yet taken at balance date.

A liability and expense are recognised for bonuses where there is a contractual obligation.

##### *Superannuation schemes*

##### *Defined contribution schemes*

Obligations for contributions to Kiwisaver are accounted for as defined contribution superannuation scheme and are recognised as an expense in the surplus as incurred.

##### *Goods and Services Tax (GST)*

All items in the financial statements are presented exclusive of GST, except for receivables and payables, which are presented on a GST inclusive basis. Where GST is not recoverable as an input tax then it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, Inland Revenue is included as part of receivables or payables in the statement of financial position.

The net GST paid to, or received from the IRD is classified as an operating cash flow in the statement of cash flows.

##### *Income Tax*

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

##### *Budget figures*

The budget figures are derived from the Statement of Intent as approved by the Board at the beginning of the financial year. The budget figures have been prepared in accordance with NZ IFRS, using accounting policies that are consistent with those adopted by the Board for the preparation of the financial statements.



### *Financial Instruments*

The Board is party to financial instruments as part of its normal operations. These financial instruments include bank accounts, short term deposits, receivables and payables. All financial instruments are recognised in the Statement of Financial Position and all revenues and expenses in relation to financial instruments are recognised in the Statement of Financial Performance.

### *Operating Leases*

Leases that do not transfer substantially all the risks and rewards incidental to ownership of an asset to the External Reporting Board are classified as operating leases and payments are recognised as an expense in the Statement of Financial Performance when payable. The External Reporting Board has operating leases on its two premises at 50 Manners Street, Wellington and 55 Shortland Street, Auckland.

## External Reporting Board Notes to the Financial Statements For the year ended 30 June 2013

### 1. Revenue from the Crown

The Board has been provided with funding from the Crown for the specific purposes as set out in its founding legislation and the scope of the relevant government appropriations. Apart from these general restrictions, there are no unfulfilled conditions or contingencies attached to government funding (2012: Nil).

### 2. Board Fees

The Board Fees include the following fees paid to Board Members.

	Meetings Attended 2013	Board Fees 2013 \$	Other Fees 2013 \$	XR B Total 2013 \$
<i>Total meetings held for the year</i>	6			
Simon Carey	6/6	15,216	3,170	18,386
Neil Cherry	6/6	15,216	67,996	83,212
Annabel Cotton	6/6	15,216	0	15,216
Michele Embling	6/6	13,287	76,018	89,305
Graeme Mitchell	6/6	15,853	16,618	32,471
Kevin Simpkins	6/6	13,083	98,361	111,444
Ralph Simpson	5/6	12,644	1,268	13,912
Ken Warren	5/6	0	0	0
Lyn Wood (FRC)	5/6	0	0	0
<b>Total Board Fees</b>		<b>100,515</b>	<b>263,431</b>	<b>363,946</b>

The Australian Financial Reporting Council (FRC) representative on the XRB is not remunerated by the XRB. Ken Warren is a state servant and accordingly is not remunerated as a Board member.

Other fees are payments made in relation to time spent on other matters over and above attendance at Board meetings. In the case of Michele Embling, and Neil Cherry this mostly reflects their roles as Chairs of the NZASB and NZAuASB respectively. In the case of Graeme Mitchell this mostly reflects his role as Deputy Chair of the NZAuASB. In the case of Kevin Simpkins it reflects his role as XRB Chairman.

The Other Fees paid to Kevin Simpkins, Michele Embling and Neil Cherry also includes time spent as a member of the relevant Australian board (FRC, AASB and AUASB respectively).

	Meetings Attended 2012	Board Fees 2012 \$	Other Fees 2012 \$	XR B Total 2012 \$
<i>Total meetings held for the year</i>	8			
Simon Carey	7/8	16,619	737	17,356
Neil Cherry	8/8	20,000	63,852	83,852
Annabel Cotton	8/8	22,950	0	22,950
Michele Embling	8/8	18,290	86,230	104,520
Graeme Mitchell	8/8	19,562	16,770	36,332
Kevin Simpkins	7/8	20,378	62,510	82,888
Ralph Simpson	6/8	15,000	0	15,000
Ken Warren	6/8	0	0	0
Lynn Wood (FRC)	7/8	0	0	0
<b>Total Board Fees</b>		<b>132,799</b>	<b>230,099</b>	<b>362,898</b>

### Board Committee Remuneration:

The External Reporting Board has two Committees - the New Zealand Accounting Standards Board (NZASB) and the New Zealand Auditing and Assurance Board (NZAuASB). The remuneration of members of these Boards (other than members who are also members of the XRB) is as follows:

<b>NZASB</b>	<b>Meetings Attended 2013</b>	<b>Board Fees 2013 \$</b>	<b>Other Fees 2013 \$</b>	<b>XRB Total 2013 \$</b>
<i>Total meetings held for the year</i>	10			
Stephanie Allan*	3/10	7,572	0	7,572
Carolyn Cordery	9/10	23,458	1,268	24,726
Kimberley Crook	10/10	25,360	13,948	39,308
Clyde D'Souza	10/10	25,360	1,268	26,628
Michele Embling	10/10	N/A	N/A	N/A
Karl Hickey	10/10	25,106	1,268	26,374
Robert Nelson	9/10	23,458	1,268	24,726
Angela Ryan	9/10	0	0	0
Greg Schollum	9/10	0	0	0
Kevin Stevenson (AASB)	7/10	0	0	0
<b>Total Committee Fees</b>		<b>130,314</b>	<b>19,020</b>	<b>149,334</b>

Michele Embling's fees are included in amounts reported for XRB Members in the first table of this Note. The Australian Accounting Standards Board (AASB) representative on the NZASB is not remunerated by the XRB. Angela Ryan and Greg Schollum are state servants and accordingly are not remunerated as a Board member.

\* Stephanie Allan was on maternity leave for a period during the year. She was granted a leave of absence from NZASB meetings during this time.

<b>NZASB</b>	<b>Meetings Attended 2012</b>	<b>Board Fees 2012 \$</b>	<b>Other Fees 2012 \$</b>	<b>XRB Total 2012 \$</b>
<i>Total meetings held for the year</i>	11			
Stephanie Allan	10/11	21,875	0	21,875
Carolyn Cordery	10/11	20,730	5,832	26,562
Kimberley Crook	11/11	29,375	0	29,375
Clyde D'Souza	11/11	27,187	0	27,187
Karl Hickey	10/11	21,840	0	21,840
Robert Nelson	9/11	19,830	7,670	27,500
Angela Ryan	9/11	0	0	0
Greg Schollum	10/11	0	0	0
Kevin Stevenson (AASB)	7/11	0	0	0
<b>Total Committee Fees</b>		<b>140,837</b>	<b>13,502</b>	<b>154,339</b>

<b>NZAuASB</b>	<b>Meetings Attended 2013</b>	<b>Meeting Fees 2013 \$</b>	<b>Other Fees 2013 \$</b>	<b>XRB Total 2013 \$</b>
<i>Total meetings held for the year</i>	6			
Robert Buchanan	6/6	15,216	1,596	16,812
Neil Cherry	6/6	N/A	N/A	N/A
Craig Fisher	6/6	15,216	1,868	17,084
Roy Glass	5/6	0	0	0
Merran Kelsall (AUASB)	5/6	0	0	0
Pat Heslin	6/6	15,216	1,268	16,484
John Kensington	4/6	10,144	0	10,144
Karen Shires	4/6	10,144	1,268	11,412
Rowena Sinclair	4/6	10,144	1,268	11,412
<b>Total Committee Fees</b>		<b>76,080</b>	<b>7,268</b>	<b>83,348</b>

Neil Cherry's fees are included in amounts reported for XRB Members in the first table of this Note. The Australian Auditing and Assurance Standards Board (AUASB) representative on the NZAuASB is not remunerated by the XRB. Roy Glass is a state servant and accordingly is not remunerated as a Board member.

<b>NZAuASB</b>	<b>Meetings Attended 2012</b>	<b>Meeting Fees 2012 \$</b>	<b>Other Fees 2012 \$</b>	<b>XRB Total 2012 \$</b>
<i>Total meetings held for the year</i>	6			
Robert Buchanan	5/6	12,500	625	13,125
Craig Fisher	6/6	15,000	1,250	16,250
Roy Glass	6/6	0	0	0
Merran Kelsall (AUASB)	5/6	0	0	0
Pat Heslin	5/6	12,500	0	12,500
John Kensington	6/6	15,000	0	15,000
Karen Shires	6/6	14,670	0	14,670
Rowena Sinclair	5/6	13,750	0	13,750
<b>Total Committee Fees</b>		<b>83,420</b>	<b>1,875</b>	<b>85,295</b>

### 3. Depreciation and Amortisation

	XRB Actual 2013 \$	XRB Actual 2012 \$
<b>Depreciation and Amortisation</b>		
Depreciation	84,507	74,995
Amortisation	4,228	3,259
<b>Total Depreciation and Amortisation</b>	<b>88,735</b>	<b>78,254</b>

### 4. Reconciliation of Total Comprehensive Income to Net Cash Flow from Operating Activities

	XRB Actual 2013 \$	XRB Actual 2012 \$
<b>Total Comprehensive Income</b>	608,225	1,066,663
Depreciation and Amortisation	88,735	78,254
Amortisation of Rent Incentive	(14,452)	61,772
<i>Add/(less) movements in working capital items relating to operating activities:</i>		
Interest in advance	8,702	0
Employee entitlements	30,907	88,002
Prepayments	(994)	(13,818)
Payables	(78,809)	90,151
Receivables	(613)	55,466
<b>Net Cash from Operating Activities</b>	<b>641,701</b>	<b>1,426,490</b>

### 5. Cash at Bank

	XRB Actual 2013 \$	XRB Actual 2012 \$
<b>Cash at Bank</b>		
Cash at call	1,344,178	1,506,704
Cash on hand	200	200
<b>Total Cash at Bank</b>	<b>1,344,378</b>	<b>1,506,904</b>

## 6. Receivables

	XRB Actual 2013 \$	XRB Actual 2012 \$
Trade receivables	20,101	19,488
Interest accrual	952	9,654
<b>Total Receivables</b>	<b>21,053</b>	<b>29,142</b>

The carrying value of receivables approximates their fair value. There are no past due receivables - all receivables are current. There have been no bad debts recognised as an expense in the Statement of Financial Performance during the current year (2012: \$Nil).

As at 30 June 2013, all receivables have been assessed for impairment and no provisions are required.

## 7. Investments

	XRB Actual 2013 \$	XRB Actual 2012 \$
BNZ Term Deposit	180,926	500,000
<b>Total Investments</b>	<b>180,926</b>	<b>500,000</b>

The term deposit matures on 10 October 2013 and carries an interest rate of 4.0% p.a. The carrying amount of term deposits approximates their fair value.

## 8. Payables

	XRB Actual 2013 \$	XRB Actual 2012 \$
Creditors	100,855	166,917
Accruals	39,501	58,052
GST payable	242,607	236,803
<b>Total Payables</b>	<b>382,963</b>	<b>461,772</b>

Payables are non-interest bearing and are normally settled on 30-day terms, therefore the carrying value of creditors and other payables approximates their fair value.

## 9. Bank overdraft

	XRB Actual 2013 \$	XRB Actual 2012 \$
Bank overdraft	0	43,271
<b>Total bank overdraft</b>	<b>0</b>	<b>43,271</b>

In the prior year, a bank overdraft occurred on 29 June 2012 - the only time during the financial year - as a result of a return of capital to the Crown of \$470,000 being paid just before year end. This was rectified on 2 July 2012.

## 10. Employee Entitlements

	XRB Actual 2013 \$	XRB Actual 2012 \$
Holiday Pay Accrual	99,770	70,505
Accrued Salaries and Wages	19,139	17,497
<b>Total Employee Entitlements</b>	<b>118,909</b>	<b>88,002</b>

## 11. Rent Incentive

### Current Liability

	XRB Actual 2013 \$	XRB Actual 2012 \$
Rent Incentive Wellington	9,209	9,209
Rent Incentive Auckland	5,242	5,242
<b>Rent Incentive</b>	<b>14,451</b>	<b>14,451</b>

### Non-current Liability

	XRB Actual 2013 \$	XRB Actual 2012 \$
Rent Incentive Wellington	27,626	36,836
Rent Incentive Auckland	5,243	10,485
<b>Rent Incentive</b>	<b>32,869</b>	<b>47,321</b>

The rent incentive on each lease is as follows:

- The lease of premises at 50 Manners Street, Wellington expires 30 June 2017. The first 6 months of this lease was rent free.
- The lease of premises at 55 Shortland Street, Auckland expires 30 June 2015. The first 6.5 months of this lease was rent free.

## 12. Property Plant & Equipment

	<b>Furniture and Fittings</b>	<b>Plant And Equipment</b>	<b>Property Improvements</b>	<b>Computer Equipment</b>	<b>XRB Total</b>
<b>Cost</b>					
Opening Balance	119,206	46,575	193,720	108,610	468,111
Additions	3,087	0	4,025	1,718	8,830
Disposals	0	0	0	0	0
<b>Closing Balance</b>	<b>122,293</b>	<b>46,575</b>	<b>197,745</b>	<b>110,328</b>	<b>476,941</b>
<b>Accumulated Depreciation</b>					
Opening Balance	11,882	13,197	13,348	36,568	74,995
Depreciation	12,791	13,973	13,842	43,901	84,507
Disposals	0	0	0	0	0
<b>Closing Balance</b>	<b>24,673</b>	<b>27,170</b>	<b>27,190</b>	<b>80,469</b>	<b>159,502</b>
<b>Carrying Amounts</b>					
At 30 June 2013	97,620	19,405	170,555	29,859	317,439
At 30 June 2012	107,324	33,378	180,372	72,042	393,116

	<b>Furniture and Fittings</b>	<b>Plant And Equipment</b>	<b>Property Improvements</b>	<b>Computer Equipment</b>	<b>XRB Total</b>
<b>Cost</b>					
Opening Balance	96,131	39,094	184,642	73,020	392,887
Additions	23,075	7,481	9,078	35,590	75,224
Disposals	0	0	0	0	0
<b>Closing Balance</b>	<b>119,206</b>	<b>46,575</b>	<b>193,720</b>	<b>108,610</b>	<b>468,111</b>
<b>Accumulated Depreciation</b>					
Opening Balance	0	0	0	0	0
Depreciation	11,882	13,197	13,348	36,568	74,995
Disposals	0	0	0	0	0
<b>Closing Balance</b>	<b>11,882</b>	<b>13,197</b>	<b>13,348</b>	<b>36,568</b>	<b>74,995</b>
<b>Carrying Amounts</b>					
At 30 June 2012	107,324	33,378	180,372	72,042	393,116
At 30 June 2011	96,131	39,094	184,642	73,020	392,887

The assets at 30 June 2011 were acquired in June 2011 as part of the set-up of the offices and as such no depreciation was charged in the 2011 year.



### 13. Intangible Assets

	XRB Actual 2013 \$	XRB Actual 2012 \$
<b>Cost</b>		
Opening Balance 1 July	10,053	5,661
Additions	6,200	4,392
Disposals	0	0
<b>Closing Balance 30 June</b>	<b>16,253</b>	<b>10,053</b>
<b>Accumulated Depreciation</b>		
Opening Balance 1 July	3,259	0
Depreciation	4,228	3,259
Disposals	0	0
<b>Closing Balance 30 June</b>	<b>7,487</b>	<b>3,259</b>
<b>Carrying Amount 30 June</b>	<b>8,766</b>	<b>6,794</b>

The intangible assets comprise software licenses.

	XRB Actual 2012 \$	ASRB Actual 2011 \$
<b>Cost</b>		
Opening Balance 1 July	5,661	0
Additions	4,392	5,661
Disposals	0	0
<b>Closing Balance 30 June</b>	<b>10,053</b>	<b>5,661</b>
<b>Accumulated Depreciation</b>		
Opening Balance 1 July	0	0
Depreciation	3,259	0
Disposals	0	0
<b>Closing Balance 30 June</b>	<b>3,259</b>	<b>0</b>
<b>Carrying Amount 30 June</b>	<b>6,794</b>	<b>5,661</b>

The intangible assets comprise software licenses.

### 14. Financial Instruments

The External Reporting Board is a party to financial instruments as part of its' normal operations. These financial instruments include bank accounts, bank deposits, receivables and payables.

#### *Credit Risk*

Financial instruments which potentially subject the Board to credit risk consist of bank balances and receivables. No collateral is required. While there is a concentration of credit risk to the Board's Bankers, any prospect of loss, given the standing and the Standard and Poor's AA credit rating of that institution, is considered unlikely.

#### *Interest Rate risk*

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate, or the cash flows from a financial instrument will fluctuate, due to changes in market interest rates.

The External Reporting Board does not have any significant exposure to interest rate risk. Risk is managed by holding funds at call or on short term deposit.

#### *Currency risk*

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency rates. The External Reporting Board does not have any exposure to currency risk.

#### *Liquidity Risk*

Liquidity risk is the risk that the External Reporting Board will encounter difficulty raising funds to meet commitments as and when they fall due. Prudent liquidity management implies maintaining sufficient cash resources.

Cash is managed by maintaining minimal funds in a transaction account, the majority of funds in an at-call account and a smaller amount of funds in a term deposit.

#### *Fair Values*

All financial instruments are recognised in the Statement of Financial Position and are stated at cost, which approximates fair value.

The carrying values of financial assets and liabilities in each of the NZ IAS 39 categories are as follows:

	XRB Actual 2013 \$	XRB Actual 2012 \$
<b>Loans and Receivables</b>		
Cash and Cash Equivalents	1,344,378	1,506,904
Receivables	21,053	29,142
Investments- Term Deposits	180,926	500,000
<b>Total Loans and Receivables</b>	<b>1,546,357</b>	<b>2,036,046</b>
<b>Financial Liabilities Measured at cost</b>		
Creditors	100,855	166,917
Accruals	39,501	58,052
GST payable	242,607	236,803
<b>Total Financial Liabilities Measured at Cost</b>	<b>382,963</b>	<b>461,772</b>

## 15. Employee Remuneration

Remuneration Range	XRB Actual 2013	XRB Actual 2012
\$100,000 - \$109,999	2	0
\$130,000 - \$139,999	0	2
\$140,000 - \$149,999	3	2
\$150,000 - \$159,999	2	0
\$160,000 - \$169,999	1	2
\$170,000 - \$179,999	1	0
\$190,000 - \$199,000	0	1
\$200,000 - \$209,999	1	0
\$210,000 - \$219,999	0	1
\$220,000 - \$229,999	1	0

## 16. Related Party Information

The External Reporting Board is an independent Crown entity as defined by the Crown Entities Act 2004.

All related party transactions have been entered into on an arm's length basis.

### *Significant transactions with Government related entities*

The External Reporting Board has been provided with Crown funding of \$4,410,000 (2012: \$4,410,000) for specific purposes as set out in its' founding legislation and the scope of the relevant government appropriations.

### *Collectively, but not individually, significant, transactions with Government related entities*

In conducting its operations, the External Reporting Board is required to pay Goods and Services Tax to the Crown. The payment of this tax is based on standard terms and conditions that apply to all taxpayers. The External Reporting Board is exempt from paying income tax.

The External Reporting Board also purchases goods and services from entities controlled, significantly influenced, or jointly controlled by the Crown. Purchases from these government related entities for the year ended 30 June 2013 totalled \$205,710 (2012: \$243,874). These purchases include air travel from Air New Zealand and postal services from New Zealand Post.

### *Key Management Personnel*

The following transactions were entered into during the year with key management personnel:

Ralph Simpson is a partner of Bell Gully. During the year the firm provided legal services to the value of \$2,980 (2012: \$1,291) to the Board.

Ken Warren is a member of the International Public Sector Accounting Standards Board (IPSASB). The External Reporting Board made a contribution of \$100,000 (2012: \$75,000) to the IPSASB.

Michele Embling is a partner of PricewaterhouseCoopers. During the year the firm provided technical consulting services to the value of \$Nil (2012: \$10,313) to the Board.

### Key Management Personnel Compensation

	XRB Actual 2013 \$	XRB Actual 2012 \$
Board meeting fees (remuneration to Board members)	596,628	602,532
Salaries and other short term employee benefits	762,149	719,288
<b>Total Key Management Personnel Compensation</b>	<b>1,358,777</b>	<b>1,321,820</b>

Key management personnel includes the Board of the External Reporting Board, the Chief Executive and three Directors.

No Board members received compensation or other benefits in relation to cessation (2012: nil).

#### 17. Severance Payments

No severance payments were made to employees or Board members during the year (2012: nil).

#### 18. Indemnity Insurance

The XRB has professional indemnity insurance at 30 June 2013 of \$1,000,000. (2012: \$1,000,000).

#### 19. Operating Lease Commitments

	XRB Actual 2013 \$	XRB Actual 2012 \$
Not later than one year	140,166	140,166
Later than one year and not later than five years	361,177	501,342
Later than five years	0	0
<b>Total Operating Lease Commitments</b>	<b>501,343</b>	<b>641,508</b>

The Board has entered into the following non-cancellable lease agreements which were effective 1 July 2011:

- The lease of premises at 55 Shortland Street, Auckland expires 30 June 2015. The first 6.5 months of this lease was rent free.
- The lease of premises at 50 Manners Street, Wellington expires 30 June 2017. The first 6 months of this lease was rent free.

#### 20. Capital Commitments

The Board has no material capital commitments (2012: nil).

#### 21. Contingent Liabilities

The Board has no material contingent liabilities (2012: nil).

#### 22. Events after the Balance Sheet Date

There were no events after the balance sheet date. (2012: A repayment to the Crown was made of the 2012 surplus in the amount of \$1,065,000 in October 2012).

## 23. Explanation of significant variances against budget

### Statement of Comprehensive Income

#### *Interest Received*

Interest income is higher than budget as a result of greater funds available to invest as a result of less expenditure than budget.

#### *Personnel Costs*

The budget allowed for a full complement of staff for the whole financial year. A position was filled in the second quarter resulting in savings. Provision was also made for our part time staff to go to full time and this did not eventuate during the financial year.

#### *Board Fees*

The budget for meeting fees includes the External Reporting Board and its two Committees, the New Zealand Accounting Standards Board and the New Zealand Auditing and Assurance Board. The variance primarily relates to less out of meeting work than budgeted for.

#### *Travel*

Travel costs are below budget due to less travel than anticipated and savings from using the All of Government Procurement arrangements.

#### *General Operating Costs*

A cost efficient culture was established from the commencement of the External Reporting Board and savings have been made in all areas of expenditure. The budget included provision for a large volume of Constituency Engagement. The engagement has been undertaken but at a lesser cost than expected.

#### *Miscellaneous Costs*

As the External Reporting Board is now only completing its' second year, a budget was created for unanticipated expenditure. It was not necessary to utilise this budget during the year.

### Statement of Financial Position

#### *Cash at Bank*

Cash balances are higher than budget due to the reduced expenditure incurred during the financial year.

#### *Receivables*

The budget assumed no receivables at year end. A small amount of receivables existed at year end.

#### *Investments*

The budget assumed that cash balances would be reduced due to the repayment of the prior year surplus to the Crown during the year (\$1,065,000). However, another surplus has been achieved this year and as such additional cash was available to place on term deposit.

#### *Payables*

The increased payables reflects a higher than expected level of creditors due at 30 June 2013.

## **24. Capital Management**

The External Reporting Board's capital is its equity, which comprises accumulated funds and Crown capital contributions. Equity is represented by net assets.

The External Reporting Board is subject to the financial management and accountability provisions of the Crown Entities Act 2004, which imposes restrictions in relation to borrowings, acquisition of securities, issuing guarantees and indemnities, and the use of derivatives.

The External Reporting Board manages its equity as a bi-product of prudently managing revenues, expenses, assets, liabilities, investments and general financial dealings to ensure the External Reporting Board effectively achieves its objectives and purpose, while remaining a going concern.

## Independent Auditor's Report

### To the readers of External Reporting Board's financial statements and non-financial performance information for the year ended 30 June 2013

The Auditor-General is the auditor of External Reporting Board (the Board). The Auditor-General has appointed me, Clint Ramoo, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and non-financial performance information of the Board on her behalf.

We have audited:

- the financial statements of the Board on pages 42 to 62, that comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of movements in equity and statement of cash flows for the year ended on that date and notes to the financial statements that include accounting policies and other explanatory information; and
- the non-financial performance information of the Board that comprises the statement of service performance on pages 31 to 38 and the report about outcomes on pages 20 to 23.

### Opinion

In our opinion:

- the financial statements of the Board on pages 42 to 62:
  - comply with generally accepted accounting practice in New Zealand; and
  - fairly reflect the Board's:
    - financial position as at 30 June 2013; and
    - financial performance and cash flows for the year ended on that date.
- the non-financial performance information of the Board on pages 31 to 38 and 20 to 23:
  - complies with generally accepted accounting practice in New Zealand; and
  - fairly reflects the Board's service performance and outcomes for the year ended 30 June 2013, including for each class of outputs:
    - its service performance compared with forecasts in the statement of forecast service performance at the start of the financial year; and

- its actual revenue and output expenses compared with the forecasts in the statement of forecast service performance at the start of the financial year.

Our audit was completed on 21 October 2013. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board and our responsibilities, and we explain our independence.

## **Basis of opinion**

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and non-financial performance information are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and non-financial performance information. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and non-financial performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and non-financial performance information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Board's financial statements and non-financial performance information that fairly reflect the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board;
- the appropriateness of the reported non-financial performance information within the Board's framework for reporting performance;
- the adequacy of all disclosures in the financial statements and non-financial performance information; and
- the overall presentation of the financial statements and non-financial performance information.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and non-financial performance information. Also we did not evaluate the security and controls over the electronic publication of the financial statements and non-financial performance information.



We have obtained all the information and explanations we have required and we believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

## **Responsibilities of the Board**

The Board is responsible for preparing financial statements and non-financial performance information that:

- comply with generally accepted accounting practice in New Zealand;
- fairly reflect the Board's financial position, financial performance and cash flows; and
- fairly reflect its service performance and outcomes.

The Board is also responsible for such internal control as is determined necessary to enable the preparation of financial statements and non-financial performance information that are free from material misstatement, whether due to fraud or error. The Board is also responsible for the publication of the financial statements and non-financial performance information, whether in printed or electronic form.

The Board's responsibilities arise from the Crown Entities Act 2004.

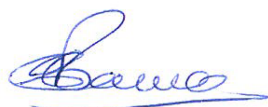
## **Responsibilities of the Auditor**

We are responsible for expressing an independent opinion on the financial statements and non-financial performance information and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and the Crown Entities Act 2004.

## **Independence**

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

Other than the audit, we have no relationship with or interests in the Board.



Clint Ramoo  
Audit New Zealand  
On behalf of the Auditor-General  
Wellington, New Zealand



## Appendix: Board Members

### Members of the External Reporting Board during 2012-13

- Simon Carey, Partner, Grant Thornton, Christchurch (term expires 16 August 2014).
- Neil Cherry, Business and Financial Consultant, Wellington (term expires 30 June 2016).
- Annabel Cotton, Investment Analyst and Accountant, Hamilton (term expires 20 June 2016).
- Michele Embling, Partner, PwC, Auckland (term expires 16 August 2014).
- Graeme Mitchell, Chartered Accountant, Wellington (Deputy Chairman) (term expires 16 February 2015).
- Kevin Simpkins, Adjunct Professor, Victoria University of Wellington (Chairman) (term expires 28 February 2014).
- Ralph Simpson, Lawyer, Bell Gully, Auckland (term expires 14 July 2014).
- Ken Warren, Chartered Accountant, The Treasury, Wellington (term expires 30 June 2014).
- Lynn Wood, Chairman, Financial Reporting Council of Australia (FRC), Sydney (term expires 10 March 2014).

### Members of the New Zealand Accounting Standards Board during 2012-13

- Stephanie Allan, Group Reporting Manager, Fonterra Co-operative Group Ltd, Auckland.
- Carolyn Cordery, Senior Lecturer, School of Accounting and Commercial Law, Victoria University of Wellington, Wellington.
- Kimberley Crook, Partner, Ernst & Young, Auckland (Deputy Chair).
- Clyde D'Souza, Principal of D'Souza Associates, Wellington.
- Michele Embling, Partner, PwC, Auckland (Chair).
- Karl Hickey, Senior Finance Manager, ANZ National Bank Ltd, Wellington.
- Robert Nelson, Financial Controller, Auckland Council, Auckland.
- Angela Ryan, Senior Accounting Policy Analyst, The Treasury, Wellington (Deputy Chair).
- Greg Schollum, Assistant Auditor-General (Accounting and Auditing Policy), Wellington.
- Kevin Stevenson, Chairman and CEO, Australian Accounting Standards Board, Melbourne.

## Members of the New Zealand Auditing and Assurance Standards Board during 2012-13

- Robert Buchanan, Lawyer, Wellington.
- Neil Cherry, Business and Financial Consultant, Wellington (Chair).
- Craig Fisher, Chairman, Hayes Knight Chartered Accountants, Auckland.
- Roy Glass, Director Auditing Policy, Office of the Auditor-General, Wellington.
- Pat Heslin, Partner, Deloitte, Dunedin.
- Merran Kelsall, Chairman Australian Auditing and Assurance Standards Board, Melbourne.
- John Kensington, Partner, KPMG, Auckland
- Graeme Mitchell, Chartered Accountant, Wellington (Deputy Chair).
- Karen Shires, Partner, PwC, Wellington.
- Rowena Sinclair, Senior Lecturer, School of Business and Law, AUT University, Auckland.

Further information about the Members of the XRB, NZASB and NZAuASB is available at [www.xrb.govt.nz](http://www.xrb.govt.nz).