



EXTERNAL REPORTING BOARD

Te Kāwai Ārahi Pūrongo Mōwaho

Statement of Performance Expectations

**For the period
1 July 2014 to 30 June 2015**

April 2014

Prepared in accordance with section 149C of the Crown Entities Act 2004

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

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Statement of Responsibility

This Statement of Performance Expectations has been prepared in accordance with the requirements of section 149C of the Crown Entities Act 2004. The purpose of the Statement of Performance Expectation is to promote the public accountability of the External Reporting Board (XRB) by:

- enabling the responsible Minister to participate in the process of setting the XRB's annual performance expectations;
- enabling the House of Representatives to be informed of those expectations; and
- providing a base against which the XRB's actual performance for the year can be assessed.

The Board is responsible for the content of this Statement of Performance Expectations, which comprises the reportable outputs (as specified in the statement of forecast service performance) and the forecast financial statements for the year, including the assumptions on which they are based, and for the judgements used in preparing them.

The forecast financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand.

As the XRB is an Independent Crown Entity, the Minister may not direct the XRB to have regard to, or give effect to, a government policy relating to the XRB's standard setting functions and as a result no such matters are included in this Statement of Performance Expectations.

In accordance with sections 149I of the Crown Entities Act 2004, the XRB has consulted with the Minister of Commerce in the preparation of this Statement.



Graeme Mitchell

Chairman

9 April 2014



Michele Embling

Board Member

9 April 2014

1. Introduction

1.1 Purpose of the Statement of Performance Expectations

This document outlines the key aspects of the performance the External Reporting Board (XRB) is expecting to deliver in the 2014/15 financial year.

In accordance with the requirements of the Crown Entities Act 2004 (as amended in 2013), the Statement of Performance Expectations covers two main dimensions of performance:

- The “reportable” classes of outputs that the XRB will deliver in 2014/15 which are funded in part or whole by the Crown (the Crown’s purchase interest) – as the XRB is fully funded by the Crown, these are all the XRB’s outputs; and
- The forecast financial performance for the XRB for 2014/15 (the Crown’s ownership interest).

1.2 Overview of the XRB

The XRB is an Independent Crown Entity with continued existence established under the Financial Reporting Act 2013 and subject to the Crown Entities Act 2004.

The functions of the XRB are prescribed by the Financial Reporting Act 2013 and comprise:

- developing and implementing an overall strategy for financial reporting standards and auditing and assurance standards (including developing and implementing tiers of financial reporting);
- preparing and issuing accounting standards, including where applicable “non-GAAP standards” for entities entitled by Law to use cash accounting, and authoritative pronouncements;
- preparing and issuing auditing and assurance standards, including the professional and ethical standards that will govern the professional conduct of assurance providers; and
- liaising with national and international organisations that exercise functions that correspond with, or are similar to, those conferred on the XRB.

The Board itself comprises up to nine members appointed by the Governor General on the recommendation of the Responsible Minister. Information about the current members of the XRB can be found at www.xrb.govt.nz.

The Board has established two standard setting boards¹, one that has responsibility for accounting standard setting (the New Zealand Accounting Standards Board) and the other with responsibility for auditing and assurance standard setting (the New Zealand Auditing and Assurance Standards Board). This structure is designed to not only ensure that the technical resources are available and that standard setting is undertaken in accordance with best practice, but also to enhance functional equivalence with Australia. These part-time, remunerated standards boards are appointed by the XRB Board, and

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

comprise up to ten suitably qualified and experienced persons with a diversity of perspective. Information about the current members of the standard setting boards can be found at www.xrb.govt.nz.

The XRB Board itself is responsible for general governance of the organisation, overall financial reporting strategy, standards strategy, and oversight of the standard setting boards.

A staff team based in Wellington and Auckland provides technical and logistical support to the three Boards.

1.3 Strategic Context

The strategic intentions of the XRB, which provided the strategic context for the 2014/15 Statement of Performance Expectations, are set out in the XRB's Statement of Intent for the 2014-19 period which is published separately.² In summary, those strategic intentions are as follows:

- Establishing a period of relative standards stability during which the existing suites of standards are maintained to reflect changes to international standards and, where necessary, enhanced to address any deficiencies or gaps that are critical to user-needs and the quality of financial reporting;
- Undertaking deliberate, organised research into the financial and non-financial information needs of the various users of XRB standards as a basis for considering enhancements to the financial reporting framework or specific standards in the future, and to help inform efforts to influence the work of the international standard setting boards;
- Actively seeking to influence the agenda and standards development work of the international standard setting boards based on two broad (and interconnected) approaches: relationships and participation;
- Continuing to enhance constituency engagement and support; and
- Maintaining a high performance culture commensurate with achieving the XRB's outcome goals, while operating in a financially prudent manner and maintaining the level of capability needed to deliver the outputs required.

² The Statement of Intent is available at http://www.xrb.govt.nz/Site/about_us/Accountability_Documents.aspx

2. Reportable Classes of Outputs

2.1 Reportable Classes of Outputs

The XRB has one reportable class of outputs i.e. one class of outputs funded by appropriation or levy. The specification of this class of outputs is specified in the table below. A specification of the individual outputs that make up the class of outputs is provided in the Statement of Forecast Service Performance.

Output Class: 2014/15 Forecast

Description of Output Class

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

What the Class is Intended to Achieve

The development and issuing of accounting and auditing & assurance standards and associated documents that are converged with international standards and harmonised with Australian standards where applicable.

How the Performance of the Class will be Assessed

Performance will be assessed by the extent to which the accounting and auditing & assurance standards on issue in New Zealand are converged with international standards and harmonised with Australian standards where applicable.

Revenue from the Crown (\$000)	4,410
Revenue from Others (\$000)	20
Cost (\$000)	4,579

The XRB does not have any reportable class of outputs for which an exemption has been granted under section 149F of the Crown Entities Act 2004.

The XRB does not intend to supply any class of outputs in the 2014/15 financial year that is not a reportable class of outputs.

2.2 Statement of Forecast Service Performance for the Year Ended 30 June 2015

Output 1: Financial Reporting Strategy	2013/14 Estimate	2014/15 Forecast
Quantity		
Number of standards frameworks being monitored	N/A	4 ³
Number of accounting standards frameworks being implemented	1 not-for-profit	1 not-for-profit
Number of amendments to accounting standards Tier Strategy submitted to Minister for approval	As required; expected to be 0-1	As required; expected to be 0-1
Number of auditing and assurance standards frameworks being implemented	1	N/A
Quality		
Standards frameworks monitoring ensures consistency with international convergence and Australian harmonisation strategy, and approved Tier Strategy	N/A	100% compliance
Accounting standards frameworks implemented in accordance with approved Tier Strategy	100% compliance	100% compliance
Amendments to Tier Strategy consistent with statutory requirements and consistent with the Government's trans-Tasman outcome goals (degree of consistency determined by XRB Board)	100% consistent	100% consistent
Timeliness		
Monitoring of standards frameworks	N/A	On-going throughout the year
Implementation of standards frameworks	On-going throughout the year	On-going throughout the year
Amendments to Tier Strategy	As required	As required

³ These Frameworks comprise: Accounting Standards Framework for For-Profit Entities, Accounting Standards Framework for Public Sector Public Benefit Entities, Accounting Standards Framework for Not-For-Profit Entities, and the Auditing and Assurance Standards Framework.

Output 2: Preparing and Issuing Accounting Standards	2013/14 Estimate	2014/15 Forecast
Quantity		
Number of exposure drafts and other due process documents issued relating to implementing the new accounting standards frameworks	45-48	2-3
Number of standards and related documents issued relating to implementing the new accounting standards frameworks	18-20	38-42 ⁴
Number of exposure drafts and other due process documents relating to existing accounting standards suites issued (depending on output of International Boards)	10-14	4-6
Number of standards and related documents relating to existing accounting standards suites issued (depending on output of International Boards)	12-15	8-10
Number of projects undertaken on behalf of international accounting standard setters	1	1-2
Quality		
Due process documents and Standards reflect approved Tier Strategy (degree of compliance determined by NZASB)	100% compliance	100% compliance
Statutory due process requirements followed	100% compliance	100% compliance
Standards reflect relevant international standards with departures only to improve quality (quality improvement determined by NZASB)	100% compliance	100% compliance
For-profit standards harmonised with Australia where appropriate	100% compliance	100% compliance
Timeliness		
Due process documents and standards relating to the new accounting standards framework issued in accordance with timeline established by the Board (usually no less than 90 days)	100% compliance	100% compliance
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

⁴ These are all expected to be accounting standards for large not-for-profit entities. These are the last of the new standards to be issued to give effect to the new multi-standards Accounting Standards Framework.

Output 3: Preparing and Issuing Auditing and Assurance Standards	2013/14 Estimate	2014/15 Forecast
Quantity		
Number of exposure drafts and other due process documents relating to auditing and assurance standards issued (depending on output of International Boards)	3-5	5-8
Number of auditing and assurance standards and related documents issued (depending on output of International Boards)	6-8	8-12
Quality		
Statutory due process requirements followed	100% compliance	100% compliance
Standards reflect relevant international standards with departures only to improve quality (quality improvement determined by NZAuASB)	100% compliance	100% compliance
Standards harmonised with Australia where appropriate	100% compliance	100% compliance
Timeliness		
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

3. Forecast Financial Statements for the Year Ended 30 June 2015

Introduction

These forecast financial statements have been prepared in accordance with generally accepted accounting practice for public sector public benefit entities. Their purpose is to facilitate consideration by Parliament of the planned performance of the External Reporting Board. Use of this information for other purposes may not be appropriate. Readers are cautioned that actual results are likely to vary from the information presented and that the variation may be material.

These forecast financial statements have been prepared on the basis of assumptions as to future events that the XRB reasonably expects to occur as at the date the information was prepared. It is not intended that this information will be updated.

Assumptions

The following assumptions have been used in preparing these forecast financial statements:

- The XRB will continue to operate in its current structure and form.
- The XRB's statutory functions will remain unchanged.
- Revenue from the Crown of \$4,410,000 will be available for the 2014/15 year.
- There will be no change to premises occupancy.
- Externally driven costs will increase by no more than the rate of inflation.
- There will be no unexpected external events (such as a natural disaster) that will require significant operating or capital expenditures to be incurred.

Statement of Accounting Policies

(a) Reporting Entity

The financial statements are prepared for the External Reporting Board (XRB) pursuant to the Crown Entities Act 2004.

The XRB is an Independent Crown Entity under the Crown Entities Act 2004 and is responsible for financial reporting strategy, and preparing and issuing both accounting and auditing and assurance standards.

The XRB has designated itself as a public benefit entity in accordance with Standard *XRB A1 (FP Entities + PS PBEs Update)* and, being eligible to do so, has elected to report in accordance with Tier 2. Accordingly for reporting periods beginning on or after 1 July 2014 the XRB is applying Public Benefit Entity Standards Reduced Disclosure Regime (PBE Standards RDR).

(b) Measurement System

The accounting principles recognised as appropriate for the measurement and reporting of results and financial position on a historical cost basis, or where required by the standards fair value, have been applied.

(c) Revenue

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

Appropriation funding is treated as non-exchange revenue (revenue from the Crown) and recorded as revenue when received.

(d) Revenue from the Crown

The Board is primarily funded through revenue received from the Crown, which is restricted in its use for the purpose specified in the Appropriation.

(e) Interest

Interest income is recognised using the effective interest method.

(f) Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits held at call with banks

(g) Receivables

Receivables are stated at expected realisable value.

(h) Goods and Services Tax

The financial statements have been prepared on a GST exclusive basis with the exception of receivables and payables which are stated GST inclusive.

(i) 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.

(j) Financial Instruments

The XRB is party to financial instruments as part of its normal operations. These financial instruments include bank accounts, short term deposits, debtors and creditors. 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 Comprehensive Revenue and Expense.

(k) Property, plant and equipment

Purchases of property, plant and equipment are initially recorded at cost. Depreciation is calculated so as to write off the cost over the expected useful lives of the assets.

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.

(l) Operating Leases

Operating lease payments, where the lessors effectively retain substantially all the risks and benefits of ownership of the leased items, are included in the Statement of Comprehensive Revenue and Expense in equal instalments over the lease term when the leased items are in use.

(m) Income Tax

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

(n) Changes in Accounting Policies

The adoption of PBE Standards RDR for the first time for the period covered by these financial statements has resulted in only one material change in accounting policies compared to the previous year – the recognition of revenue from the Crown as non-exchange revenue. This change in accounting policy has had no material impact on the forecast financial statements.

External Reporting Board

Statement of Forecast Comprehensive Revenue and Expense For the year ending 30 June 2015

	2013/14 Estimated \$000	2014/15 Forecast \$000
Revenue from the Crown	4,410	4,410
Interest	44	20
Total Revenue	4,454	4,430
Personnel Costs	2,095	2,471
Board Members' Fees	685	699
Travel	395	373
General Operating Costs	449	427
Contributions to IASB and IPSASB	300	300
Premises Expenses	165	168
Depreciation	95	66
Miscellaneous Expenses	0	75
Total Expenses	4,184	4,579
Net Surplus/(Deficit)	270	(149)
Other Comprehensive Revenue and Expenses	0	0
Total Comprehensive Revenue and Expenses	270	(149)

The Statement of Accounting Policies forms part of and is to be read in conjunction with the Statement of Forecast Comprehensive Revenue and Expenses.

External Reporting Board

Statement of Forecast Financial Position As at 30 June 2015

	2013/14 Estimated \$000	2014/15 Forecast \$000
ASSETS		
Current Assets		
Cash at Bank	1,829	1,669
Prepayments	22	22
Receivables	10	10
	<u>1,861</u>	<u>1,701</u>
Non-Current Assets		
Property, Plant and Equipment	267	272
	<u>267</u>	<u>272</u>
Total Assets	<u>2,128</u>	<u>1,973</u>
LIABILITIES		
Current Liabilities		
Payables	480	488
Rent Accruals	33	19
	<u>513</u>	<u>507</u>
Non-Current Liabilities	-	-
Total Liabilities	<u>513</u>	<u>507</u>
NET ASSETS	<u>1,615</u>	<u>1,466</u>
EQUITY		
Capital Contribution from the Crown	725	725
Retained Earnings	890	741
	<u>1,615</u>	<u>741</u>
TOTAL EQUITY	<u>1,615</u>	<u>1,466</u>

The Statement of Accounting Policies forms part of and is to be read in conjunction with the Statement of Forecast Financial Position.

External Reporting Board

Statement of Forecast Movements in Equity For the year ending 30 June 2015

	2013/14 Estimated \$000	2014/15 Forecast \$000
Equity as at 1 July	1,345	1,615
Total Recognised Revenues and Expenses	270	(149)
Equity as at 30 June	1,615	1,466

The Statement of Accounting Policies forms part of and is to be read in conjunction with the Statement of Forecast Movements in Equity.

External Reporting Board

Statement of Forecast Cash Flows For the year ended 30 June 2015

	2013/14 Estimated \$000	2014/15 Forecast \$000
Cash Flows from Operating Activities		
Cash was provided from:		
Revenue from the Crown	4,410	4,410
Interest	40	20
	<u>4,450</u>	<u>4,430</u>
Cash was distributed to:		
Employee Costs	(2,139)	(2,471)
Suppliers	(1,672)	(1,733)
Contribution to IASB and IPSASB	(300)	(300)
	<u>(4,111)</u>	<u>(4,504)</u>
Net Cash Flow from: Operating Activities	339	(74)
Cash Flows from Investing Activities		
Cash was distributed to:		
Purchase of Property, Plant and Equipment	(35)	(86)
	<u>(35)</u>	<u>(86)</u>
Net Cash Flow from: Investing Activities	(35)	(86)
Cash Flows from Financing Activities	<u>-</u>	<u>-</u>
Net Cash Flow from: Financing Activities	0	0
Net (Decrease) / Increase in Cash	304	(160)
Add Opening Cash Balance	1,525	1,829
Closing Cash Balance	<u>1,829</u>	<u>1,669</u>

The Statement of Accounting Policies forms part of and is to be read in conjunction with the Statement of Forecast Cash Flows.

Explanation of Forecast Financial Statements

The forecast financial statements assume a level of activity and cost structure similar to that for the 2013/14 financial year except in the following areas:

- **Operating expenses:**
 - Compared to 2013/14, an increased amount has been allowed for personnel costs. This is primarily to allow for the fact that there were two senior positions that were vacant for the majority of 2013/14 that won't be vacant in 2014/15;
 - An amount of \$75,000 has been included in miscellaneous expenses to fund user-needs research, activities to influence the international boards, and other initiatives resulting from the adoption of the XRB 2014-19 Strategic Plan (see the XRB 2014-18 Statement of Intent for an explanation of these initiatives);
- **Capital expenditure:**
 - An amount of \$33,000 has been included in the capital budget (that lies behind the Forecast Statement of Financial Position) for a document management system. The implementation of a document management system was deferred when the XRB was established in 2011 until there was greater experience about needs for the system. It is intended to proceed with purchasing and implementing this system during the 2014/15 financial year.

The operating forecast for the year is a deficit of \$149,000 and results primarily by the decision to allocate additional resources, as well as divert some existing resources, to fund initiatives resulting from the XRB's 2014-19 Strategic Plan. These initiatives are considered to be critical to ensuring the effectiveness of the new standards framework developed over the last three years and the achievement of the XRB's outcome goal.

The deficit will be funded from retained earnings (i.e. surpluses from previous years) and related cash reserves as part of a carefully planned five-year expenditure strategy established by the Board. No additional funding or appropriation is being sought and contributed capital will not be affected by the deficit.