



EXTERNAL REPORTING BOARD

Te Kāwai Ārahi Pūrongo Mōwaho

**Briefing for the Incoming
Minister of Commerce**

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Contents

	<i>Page</i>
Part A: Overview of the Organisation	3
The External Reporting Board	3
Legal Functions	3
The XRB's Outcomes and Outputs	3
Liaising with International Standard Setters	4
Organisational Structure	5
Funding	6
Levies	6
Part B: Strategic Focus and Priorities	7
Strategic Drivers	7
Accounting Standards Framework	7
Financial Reporting Tier Strategy	7
Trans-Tasman Harmonisation	8
Strategic Priorities	8
Appendix: External Reporting Board Members	9

Part A: Overview of the Organisation

The External Reporting Board

The External Reporting Board (XRB) is an independent Crown Entity established under section 22 of the Financial Reporting Act 1993 (as amended in 2011) and is subject to the Crown Entities Act 2004.

The XRB came into existence on 1 July 2011 when the Financial Reporting Amendment Act 2011 came into force.

The XRB is an Independent Crown Entity, and this status recognises that the XRB must operate, and must be seen to operate, independently from the Crown in carrying out its standard setting functions.

Legal Functions

In accordance with section 24 of the Financial Reporting Act 1993, the XRB is responsible for:

- developing and implementing an overall strategy for financial reporting standards and auditing and assurance standards (including developing and implementing tiers of financial reporting and assurance);
- preparing and issuing accounting standards;
- preparing and issuing auditing and assurance standards, including the professional and ethical standards that 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 XRB's Outcomes and Outputs

The Government's overarching outcome goal is: *to grow the New Zealand economy in order to deliver greater prosperity, security and opportunities to all New Zealanders.*

In the economic development sector, one of the intermediate outcomes flowing from this overarching goal is: *the creation of dynamic and trusted markets.*

A precondition for dynamic and trusted markets 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 "market" 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, the main purpose 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 dynamic and trusted markets (in the broadest sense). 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 based on clear and sound economic principles, are mutually consistent, can be readily applied by preparers and the resulting information 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 and the economic development sector's outcome goals.

Accordingly, the XRB's **outcome goal** is:

To contribute to the creation of dynamic and trusted markets through the establishment of an accounting and assurance standards framework that:

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

The XRB is seeking to influence this outcome through the delivery of three outputs:

- developing financial reporting strategy;
- preparing and issuing accounting standards; and
- preparing and issuing auditing and assurance standards.

These outputs, together with performance measures, are specified in our Statement of Intent and Output Agreement. Their content is reflective of the title of each output.

Liaising with International Standard Setters

An important element of the XRB's work is liaising with international standard setters. This is an integral part of all three outputs and is important for a number of reasons. Key amongst these is the fact that the XRB Board has a policy of adopting international standards in New Zealand where appropriate. Such an approach reduces domestic standard setting costs. It is consistent with the XRB's outcome goal and is particularly important for entities operating in the international capital markets where being able to assert compliance with International Financial Reporting Standards (IFRS) is generally considered essential for international competitiveness.

The main international standard setting bodies the XRB interacts with, and the standards they produce, are as follows:

- The International Accounting Standards Board (IASB): International Financial Reporting Standards (IFRS);

- The International Public Sector Accounting Standards Board (IPSASB): International Public Sector Accounting Standards (IPSAS);
- The International Auditing and Assurance Standards Board (IAASB): International Standards on Auditing (ISA);
- The International Ethical Standards Board for Accountants (IESBA): International Code of Ethics.

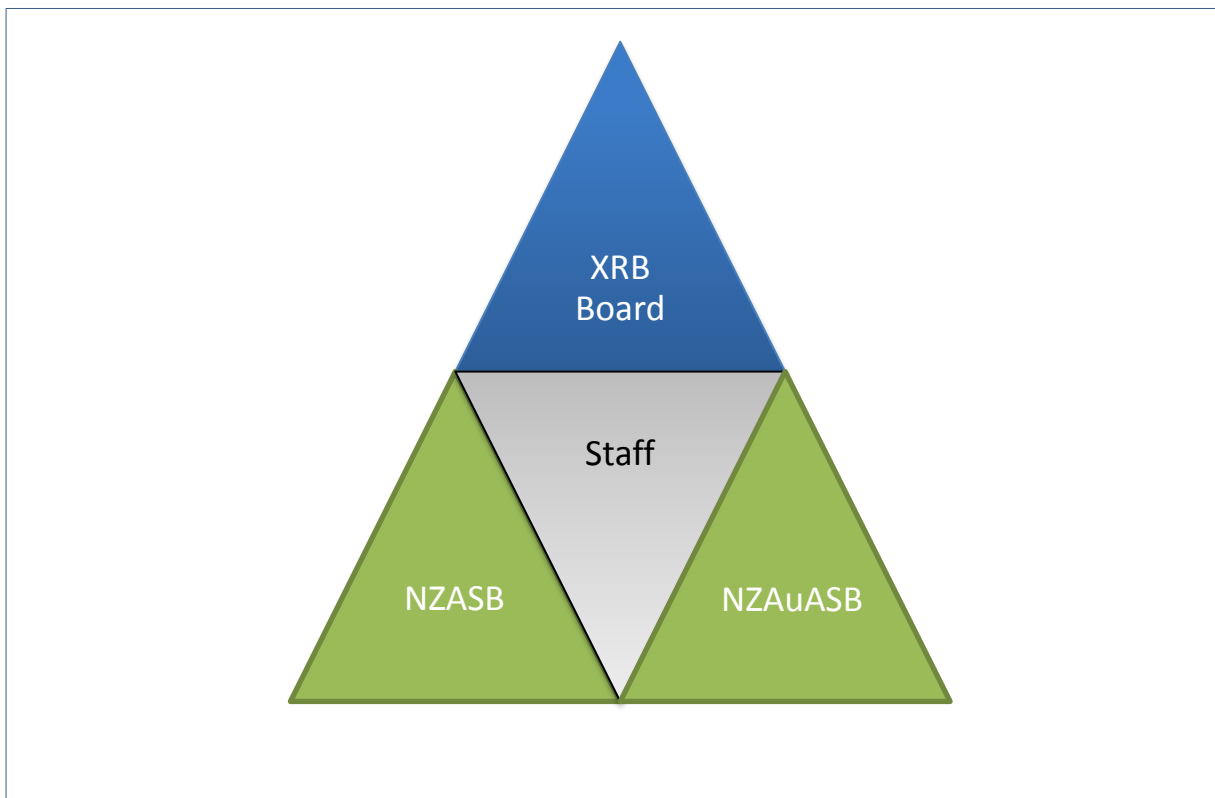
Organisational Structure

The XRB organisation (the XRB) consists of the XRB Board, two standard setting boards (the NZASB and the NZAuASB) and a staff team as depicted in Figure 1.

The XRB Board comprises up to 9 members and is appointed by the Governor-General on the recommendation of the responsible Minister (the Minister of Commerce). The members of the XRB are all part-time and are remunerated in accordance with rates determined by the Remuneration Authority. Information about the current XRB Board members is attached at Appendix 1.

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

Figure 1: Structure of the XRB Organisation



The New Zealand Accounting Standards Board (NZASB) is a Committee of the XRB appointed in accordance with Schedule 5 of the Crown Entities Act and operates under delegated authority. It is responsible for developing and issuing accounting standards for entities required to comply with generally accepted accounting practice (GAAP).

The NZASB comprises ten suitably qualified and experienced persons with a diversity of perspective. The members of the NZASB are appointed by the XRB and are all part-time.

The New Zealand Auditing and Assurance Standards Board (NZAuASB) is a Committee of the XRB appointed in accordance Schedule 5 of the Crown Entities Act and it also operates under delegated authority. It is responsible for developing and issuing auditing and assurance standards.

The NZAuASB comprises ten suitably qualified and experienced persons with a diversity of perspective. The members of the NZAuASB are appointed by the XRB and are all part-time.

Funding

The XRB is funded by a gross appropriation. For the 2011/12 financial year the appropriation is \$4.410 million and a similar amount has been provided for in the out-year projections.

As part of the establishment of the XRB one-off capital injections totalling \$1.195 million were appropriated and paid in the 2010/11 and 2011/12 financial years. This covered the capital cost of establishing physical offices with permanent staff and establishing the necessary level of working capital.

In accordance with the Output Agreement, any capital not required for these purposes will be retained as reserves. Any reserves held by the XRB can only be used in ways that contribute to its outputs and are consistent with its statutory functions.

In accordance with the Output Agreement the XRB is expected to manage its finances so that the operating result for the year is a surplus. The Board is expected to notify the Minister at an early opportunity if it expects the operating result for the year to be a deficit. In relation to the current year the Board expects to run a modest operating surplus.

Levies

As part of its decisions relating to the establishment of the XRB, the Government decided to introduce a levy on relevant third parties. The XRB has no involvement in the setting or collection of the levy.

Part B: Strategic Focus and Priorities

Strategic Drivers

The strategic drivers for the XRB's current work are two-fold:

- The new financial reporting framework announced by the Government in September 2011; and
- The Outcome Goals flowing from the Government's Single Economic Market agreement with Australia.

Accounting Standards Framework

In September 2011 the XRB issued two consultation papers outlining proposals for new Accounting Standards Frameworks for General Purpose Financial Reporting by For-Profit Entities and Public Benefit Entities¹ respectively. These are the Board's response to the Government's announcement on changes to which entities should report publicly in the future.

The XRB's proposals are for two sets of accounting standards – one for for-profit entities; and one for public benefit entities (non-commercial public sector and not-for-profit entities). The Board is also proposing the use of tiers within each sector, with lesser tiers having reduced reporting requirements. This is to match the costs and benefits of reporting and such an approach is envisaged by the recent amendments to the Financial Reporting Act 1993.

Submissions on the proposed Accounting Standards Framework are due from interested parties by 16 December 2011. It is expected that the Board will make a final decision on the Framework in the first quarter of 2012, with standards development work following shortly after. This work is all predicated on the assumption that the changes to the statutory financial reporting framework, announced by the Minister of Commerce in September 2011, will be enacted by mid-2013.

Financial Reporting Tier Strategy

The Board's decisions about the Accounting Standards Framework will inform its recommendations to you about the financial reporting tier structure.

In accordance with section 34A of the Financial Reporting Act 1993 (as amended in 2011) the XRB must prepare and submit to the Minister a strategy for establishing different tiers of financial reporting. Under section 34C of the Act, you may either approve or decline to approve the draft strategy (the grounds for declining the strategy are outlined in the Act).

After the strategy has been approved by the Minister, the XRB must take reasonable steps to implement the strategy.

The Board expects to submit a strategy to you no later than 31 March 2012 in accordance with the requirements of the Act.

¹ A public benefit entity (PBEs) is a reporting entity whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders. In practical terms PBEs comprise non-commercial public sector entities and not-for-profit entities.

Trans-Tasman Harmonisation

The Board is actively working towards the achievement of accounting and auditing and assurance standards that are harmonised with those in Australia, where relevant. This has already been achieved for for-profit entities that are issuers and our accounting standards framework proposal will achieve harmonisation for other for-profit entities required to prepare general purpose financial reports.

The Auditing and Assurance Standards Boards have begun a joint project to harmonise auditing and assurance standards and this is expected to be achieved within the next 18 months or so.

Strategic Priorities

The development of the new accounting standards framework and the trans-Tasman harmonisation initiatives are reflected in the XRB's current strategic priorities. These strategic priorities, which are designed to contribute maximum benefit to our outcome goal, are as follows:

- Developing and maintaining a financial reporting strategy including financial reporting within the new Tier structure consistent with the Government's Financial Reporting Framework;
- Developing and maintaining for-profit accounting standards converged with International Financial Reporting Standards (IFRS) and harmonised with Australia;
- Developing and maintaining public benefit entity standards based on International Public Sector Accounting Standards (IPSAS) modified as appropriate for the New Zealand public sector and for not-for-profit entities;
- Harmonising Auditing and Assurance standards with Australia;
- Converging Auditing and Assurance standards with international standards;
- Establishing a stronger level of engagement with constituents as part of the standard setting process; and
- Building organisational capability to deliver on these strategic priorities, particularly in technical areas.

Appendix: External Reporting Board Members

Simon Carey, CA

Simon Carey is a Director of Grant Thornton New Zealand Limited and is involved in national management of the firm. He has nearly 20 years' experience advising businesses and not-for-profit entities on a broad range of issues.

Neil Cherry, FCA

Neil Cherry is an independent Business and Financial Consultant specialising in financial management, organisational strategy and governance. He was previously Chief Financial Officer of Wellington City Council, Director of Professional Assurance at NZICA, and Audit Manager at Audit New Zealand.

Annabel Cotton, CA

Annabel Cotton is an investment analyst and accountant specialising in providing advice on investor relations and equity management programmes. Her governance experience includes being a director for several NZX-listed companies.

Michele Embling, CA

Michele Embling is the Auckland Managing Partner of PricewaterhouseCoopers and heads the technical function of the New Zealand firm providing key advice on complex financial reporting, statutory and regulatory reporting issues.

Graeme Mitchell FCA

Graeme Mitchell is a chartered accountant, recently retired from Deloitte, Wellington where he was an Audit and Assurance Partner for over 28 years. He was responsible for leading the audits of large entities in the public and private sectors, covering a wide range of business activities.

Kevin Simpkins FCA – Chairperson

Kevin Simpkins is an Adjunct Professor at the School of Accounting and Commercial Law at Victoria University of Wellington. He has extensive experience across the public, private and not-for-profit sectors.

Ralph Simpson

Ralph Simpson has been a partner at Bell Gully since 1992 and currently heads the firm's litigation department. He specialises in commercial, corporate and securities litigation.

Ken Warren, FCA

Ken Warren is the New Zealand Treasury's Chief Accounting Advisor. Ken co-ordinates and provides advice on the Government's accounting policies and practices. In addition he has responsibility for Public Finance Act matters dealing with reporting and appropriations.

Lynn Wood FAICD

Lynn Wood is Chairman of the Australian Financial Reporting Council (FRC) and appointed to the XRB as a reciprocal member. Lynn is a highly experienced company director.