



**EXTERNAL REPORTING BOARD**

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*Te Kāwai Ārahi Pūrongo Mōwaho*

# **Briefing for the Incoming Minister of Commerce and Consumer Affairs**

November 2017

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External Reporting Board

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## Part A: Overview of the Organisation

### The External Reporting Board

The External Reporting Board (XRB) is an Independent Crown Entity, initially established under the Financial Reporting Act 1993, with continued existence under Section 11 of the Financial Reporting Act 2013. As a Crown Entity, the XRB is subject to the Crown Entities Act 2004.

The XRB came into existence on 1<sup>st</sup> July 2011 when it was reconstituted from the Accounting Standards Review Board (ASRB), following the 2011 amendments to the Financial Reporting Act 1993.

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, the accounting profession and the financial reporting constituents in carrying out its standard setting functions. This is a similar structure to standard-setting bodies in other jurisdictions.

### Legal functions of the XRB

The XRB's functions are prescribed by Section 12 of the Financial Reporting Act 2013<sup>1</sup> and are as follows:

- Developing and implementing an overall strategy for financial reporting standards (both accounting and auditing & 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 & 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 XRB's outcomes and outputs

The outcome goals of the XRB are derived from the economic principles of integrity and transparency required of all entities, together with the need to regularly report upon activities to their stakeholders. It is important that New Zealand adopts internationally-accepted standards of accounting and auditing & assurance to ensure these economic principles are met and our economy remains competitive in terms of attracting high quality investment.

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

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

*The establishment of accounting and assurance standards 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 goal through the delivery of three outputs:

- Maintaining a financial reporting strategy, accounting framework, assurance framework and thought leadership programme;
- preparing and issuing accounting standards, authoritative notices, other international pronouncements and New Zealand guidance; and
- preparing and issuing auditing & assurance standards, other international pronouncements and New Zealand guidance.

These outputs, together with performance measures, are specified in our Statement of Intent and Statement of Performance Expectations. We have developed a chart showing how we create value. This chart is included at Appendix 3 of this Briefing for the Incoming Minister.

## Summary of XRB strategies for the 2017-2022 period

### **Overarching Strategy**

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

### **Specific Strategy 1: Maintain and Enhance Existing Standards**

Establish a period of relative standards stability during which the existing suites of standards are maintained to reflect changes to international standards and, where necessary, enhanced to address any deficiencies or gaps that are significant to user-needs and the quality of financial reporting.

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

### **Specific Strategy 2: Undertake User-needs Research**

Undertake deliberate, organised research into the financial and non-financial information needs of the various users of our standards as a basis for considering enhancements to the financial reporting framework or specific standards in the future, and to help inform efforts to influence the work of the international standard setting boards.

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

### ***Specific Strategy 3: Influence the International Boards***

Support the overarching strategy of international convergence by actively:

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

### ***Specific Strategy 4: Enhance Constituency Engagement and Support***

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

- Enhance the level and quality of constituency engagement, including further widening the membership representation of the XRAP and using it as a platform for constituency and market feedback;
- Increase the organisation's involvement in awareness activities that help the constituency better understand the role, purpose and requirements of our standards, including developing a communication strategy for social media;
- Actively promote the awareness, understanding and implementation of forms of Extended External Reporting (EER) among New Zealand constituents and set specific targets and goals to monitor the success (or otherwise) of such awareness raising;
- Actively encourage, facilitate and support other relevant organisations to provide appropriate training and professional development activities relating to financial reporting; and
- Actively work with other agencies to ensure the linkages between the work of relevant agencies in the financial and non-financial reporting and assurance areas are identified and gaps addressed.

### ***Specific Strategy 5: Maintain Capability within a Financially Prudent Organisation***

From an ownership performance point of view, the main operational focus is ensuring that the XRB as an organisation is operating in an efficient and effective “steady-state” mode by:

- Maintaining a high-performance culture commensurate with achieving the XRB's outcome goals;

- Operating in a financially prudent manner including within the fiscal parameters established by appropriation; and
- Maintaining the level of capability needed to deliver the outputs required and the strategic priorities outlined in this Briefing to the Incoming Minister.

## 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 several reasons.

Key amongst these is the fact that the XRB has a policy of adopting international standards in New Zealand where appropriate. This 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. Such an approach also reduces domestic standard setting costs.

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); and
- The International Ethical Standards Board for Accountants (IESBA): International Code of Ethics (particularly for assurance practitioners).

New Zealanders have key positions on the IASB (Vice-Chair), IPSASB (Deputy Chair for 2017 and 2018) and IAASB (Public Member). The IFRS Advisory Council (formal advisory body to the IASB) will have two New Zealanders on it in 2018.

## Organisational structure

The XRB Organisation consists of the XRB Board, two standard setting boards (the New Zealand Accounting Standards Board (NZASB) and the New Zealand Auditing & Assurance Standards Board (NZAuASB)) and a small staff team.

**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 and Consumer Affairs). The members of the XRB are all part-time and are remunerated in accordance with rates determined by the Remuneration Authority. Members are appointed for a renewable term of up to five years. 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.

**The New Zealand Accounting Standards Board (NZASB)** is a Committee of the XRB and operates under delegated authority. It is responsible for developing and issuing accounting standards for entities required (normally by legislation) to comply with generally accepted accounting practice (GAAP).

The NZASB comprises around 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 and remunerated in accordance with rates determined by the Remuneration Authority.

**The New Zealand Auditing and Assurance Standards Board** (NZAuASB) is a Committee of the XRB and it also operates under delegated authority. It is responsible for developing and issuing auditing and assurance standards.

The NZAuASB comprises around 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 and remunerated in accordance with rates determined by the Remuneration Authority.

This structure is designed to ensure technical resources are available and standard setting is carried out in accordance with best practice. It should be noted that it matches functional equivalence with Australia, where there is an Australian standard setting board to match the equivalent New Zealand board.

**The organisation's staff** is currently at full complement (presently 17, in offices in Auckland, Wellington and Nelson). Under the current operating environment, the XRB Board does not have any capability concerns, but, subject to the impact of international standard-setting structure and process considerations, this could alter. Details of the XRB's Chief Executive are included in Appendix 2.

## Funding

The XRB is funded by a gross appropriation. Since its establishment in 2011, the annual appropriation has been set at \$4.410 million.

In accordance with its Statement of Performance Expectations, the XRB is expected to manage its finances so that the operating result for the 2017/2018 year is a small deficit. In the past, XRB has had operating surpluses, principally due to staff vacancies, the timing of international appointments and the lack of continued investment in infrastructure. All the above-mentioned organisational initiatives are now in place and future deficits will be incurred and financed from accumulated reserves.

## Levies

As part of its decisions relating to the establishment of the XRB, the Government, in 2011, decided to introduce a levy on relevant third parties. The XRB is not involved in the setting or collection of the levy (even though it is called the "XRB levy") – this is all undertaken by the Ministry of Business, Innovation and Employment.



## Part B: Strategic Focus and Priorities

### The foundations for the XRB's strategic focus

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

### Broad strategic approach

The XRB Board's current financial reporting strategy comprises two main elements:

- the multi-standards (different standards for the for-profit entities and public benefit entities (PBE)), multi-tier approach (different requirements depending on the size and level of public accountability of the entity); and
- where applicable, standards that are converged with international standards and harmonised with Australian standards.

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

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

Recent international geopolitical events show that change can be significant and unexpected. While the implications of such events are not yet clear or fully understood, such events do create a "new normal" world, one that is likely to be subject to further significant and unexpected change. The standard-setting environment is not immune to such changes. To appropriately react to any international disruption, the XRB Board will closely monitor all key international developments to assess and respond to any changes that may fundamentally affect the standard setting environment, or the standard setting structures, under which international standards are set. We are confident there will be change, during the next two years, in the global standard-setting structures and processes, particularly as it relates to auditing & assurance and ethics for assurance practitioners, to which the XRB will need to respond. This may see the NZAuASB involved in higher levels of "national standard setting".

### Broad delivery mechanisms

#### *Influencing International Boards*

The XRB Board's convergence strategy means the current strategy of seeking to influence the international boards "at the front end" (i.e. during the early stages of standard development) will continue to be important.

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

- *Relationships:* The XRB Board intends to continue to build relationships with the international boards (and related organisations) at both board member and staff levels.
- *Participation:* The XRB Board will continue in its efforts to support the work of the international boards (and related organisations) and ensure it is adding value to the work of the international boards. The XRB Board is committed to maintaining good relationships with other standard setters and relevant groups and this will therefore continue to be an important priority. The XRB Board will nominate and support suitably qualified individuals for appointment to the membership of international boards, where this is considered to be appropriate.

International relationship building and participation (and active monitoring of international developments) will be important to enable the XRB Board to stay informed of, and respond to, any disruptions in the international standard setting structure and environment.

### ***Constituency Engagement***

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

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

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

Significant enhancements to the XRB website have been made in the past year to assist users to more easily navigate the website. The website is our key communication platform for disseminating all our work.

### ***Awareness Raising and Facilitation***

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

It is not within the XRB's legislative mandate to provide training on how to apply the standards, professional development training, or education of a general nature (such as financial literacy).

## Appendix 1: External Reporting Board – Members as at 30 September 2017

### Graeme Mitchell – Chair



Graeme Mitchell is a chartered accountant and professional director. He is a director of the Retirement Income Group of companies, Barnardo's New Zealand, Deputy Chair of the National Provident Fund Board of Trustees, Chair of the Audit Committees of the Ministry of Justice, Ministry of Social Development and the Humans Rights Commission and an independent member of the audit committee of Porirua City Council.

Graeme represents the XRB on the Australian FRC.

He is also the Honorary Consul General for Norway and was made an Officer of the Royal Norwegian Order of Merit in 2009 for services to Norway overseas. Graeme is a retired Deloitte Audit and Assurance Partner. In that role, he was responsible for leading the audits of large entities in the public and private sectors, covering a wide range of business activities.

### Michele Embling - Deputy Chair



Michele Embling is the Chair of PWC. She was responsible for leading the firm's Assurance practice and provides leadership and continuity in the firm's approach to its clients. Michele's expertise is advising clients on financial reporting, statutory and regulatory reporting issues.

Michele is a specialist in international financial reporting standards (IFRS) and has extensive experience advising organisations on complex financial reporting matters, in particular, those relating to financial statements and prospectuses of issuer clients in securities markets.

### Prof. Michael Bradbury



Michael Bradbury is a professor in Accounting at Massey University. He has taught at the University of Auckland, and has had visiting appointments at the Sloan School of Management, Massachusetts Institute of Technology, University of Sydney, and Hong Kong Polytechnic University.

His research interests are in corporate financial reporting, financial analysis and governance. He has recently begun working on public sector data, with interest in local councils. He is actively involved in international professional accounting activities, including: IFRS Advisory Council 2012 – 2013 and IFRS Interpretations Committee (IFRIC) 2004-2008. Prior to his academic career, he was, for ten years, a chartered accountant with a large accounting firm in Auckland and London.

## **Simon Carey**



Simon Carey is a Partner at Grant Thornton New Zealand Ltd and works within the PHB and Corporate Finance division. He is an experienced Chartered Accountant and business adviser with demonstrated expertise across privately held businesses, government and public interest entities in Australia and New Zealand.

Simon has specialised industry experience in transport and logistics and contracting. He specialises in capital raising, business valuations, expert witness and litigation support, turnaround, re-structuring and consulting work.

## **Kimberley Crook**



Kimberley Crook is a partner with EY, where she is the firm's New Zealand IFRS leader, and part of its Financial Accounting Advisory Services team. She provides advice on the application of accounting standards across a range of technical issues to clients in the corporate, public and not-for-profit sectors.

Kimberley is the current Chair of the NZASB and a member of the Australian Accounting Standards Board (AASB).

Kimberley was previously NZICA Technical Director – Accounting Standards and has also held senior staff positions at the International Accounting Standards Board and the UK Accounting Standards Board. Kimberley was a member of the FRSB.

## **Bill Edge**



Bill is a retired partner of PwC, having been a partner for 18 years. For his last eight years he led the PwC Australia Risk & Quality Group, which was responsible for risk management and quality control, including methodologies and technologies, across all the firm's business units. He served on Global and Asian Risk and Quality Leadership teams.

Bill is the current Chair of the Australian Financial Reporting Council (FRC).

He also spent six years leading the PwC Australian Professional Standards Group responsible for the firm's financial reporting and auditing policies and advice. He was also previously Chair of the Australian Auditing & Assurance Standards Board.

### **John Kensington**



John Kensington is Financial Services Audit Partner at KPMG. He is the head of KPMG's Financial Services Audit Practice and banking and Finance Line of Business. He is also the editor of the Financial Institutions Performance Survey.

John is a licenced auditor and his audit experience covers a wide range of commercial sector clients including Banking, Insurance, Funds Management, and the Automotive Industry. He has particular expertise in financial services auditing and related Reserve Bank and Trustee reporting requirements. John is also a trustee of the Kidscan Charitable Trust.

### **Jane Taylor**



Jane Taylor is a lawyer, chartered accountant and professional director. She has extensive experience in commerce, governance and law.

Jane is currently Chair of NZ Post, Chair of Landcare Research New Zealand Limited, Independent Director and Chair of the Audit and Risk Committee for Silver Fern Farms Limited and Deputy Chair of Radio New Zealand.

### **Fergus Welsh**



Fergus Welsh is a Chartered Accountant with specialist knowledge of public benefit entity reporting issues. He has more than 25 years' public sector financial management experience working across a number of government agencies. Fergus is currently the Group Manager-Financial Advice & Control at the Ministry of Health.

Prior to that he held roles as Chief Financial Officer and Chief Accountant at the New Zealand Treasury, and has also been the New Zealand Government Representative on the Governing Board of the Joint Accreditation System of Australia and New Zealand (JAS-ANZ).

## Appendix 2: External Reporting Board - Chief Executive

### Warren Allen - Chief Executive



Warren is responsible for assisting the XRB Board in the development and execution of the XRB's strategic goals and annual objectives. He leads the XRB in the achievement of the organisation's mission, strategy and annual objectives. He oversees the XRB's operations, people, policies and processes and provides information and reports to the XRB Board to enable effective governance of the XRB.

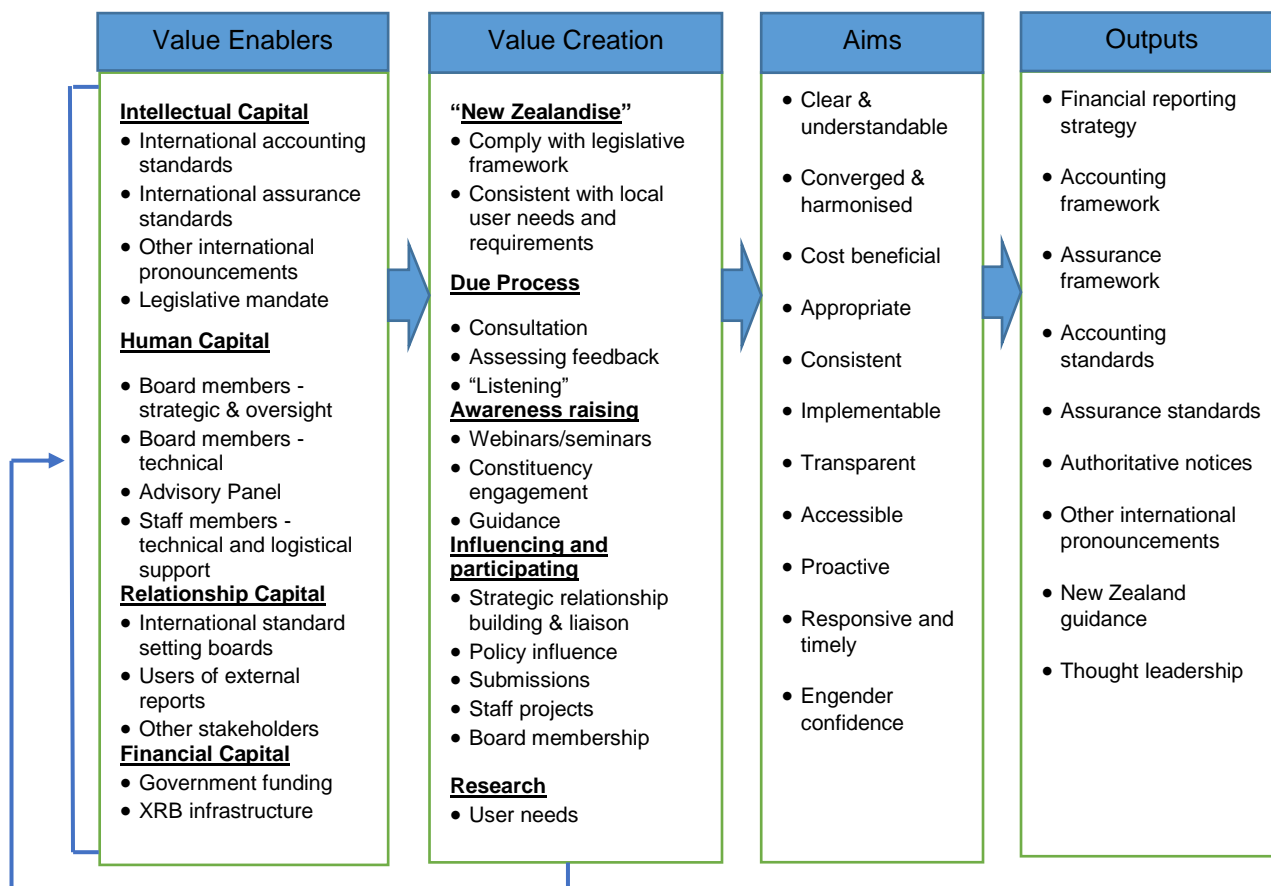
Warren was previously a Partner at Ernst & Young for 30 years and recently the President of the International Federation of Accountants (IFAC), from 2012 to 2014.

He has extensive experience within the accounting and auditing profession both in New Zealand and globally, including large and small clients in both for-profit and public benefit sectors.

He has been previously involved in standard setting of international education standards for the accountancy profession.

## Appendix 3: External Reporting Board -

### Value Adding Model



#### Value enablers

- Resources and relationships used in our value creation process.

#### Value creation

- Processes utilised, together with the value enablers, to deliver outputs to our stakeholders; and
- Learnings from our processes become feedback into our value enablers.

#### Aims

- Objectives driving the delivery of our outputs.

#### Outputs

- Services created by our value adding model and contributing to our outcome goal.