



**EXTERNAL REPORTING BOARD**

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*Te Kāwai Ārahi Pūrongo Mōwaho*

## **Annual Report**

**For the year ended 30 June 2014**

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, with continued existence under section 11 of the Financial Reporting Act 2013, and subject to the Crown Entities Act 2004.

This annual report for the year ended 30 June 2014 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 third year of the XRB's operations.

## Board Members

Under the Financial Reporting Act 2013<sup>1</sup>, 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 prescribed by Section 12 of the Financial Reporting Act 2013<sup>2</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, and authoritative notices;
- 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 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 Act 2013 replaced the Financial Reporting Act 1993 on 1 April 2014. The Board membership requirements are the same in both Acts.

<sup>2</sup> The functions of the Board under the 2013 Act are not significantly different from those under the 1993 Act.

## Organisational Structure

The Board has established two standard setting boards to help it carry-out its functions:

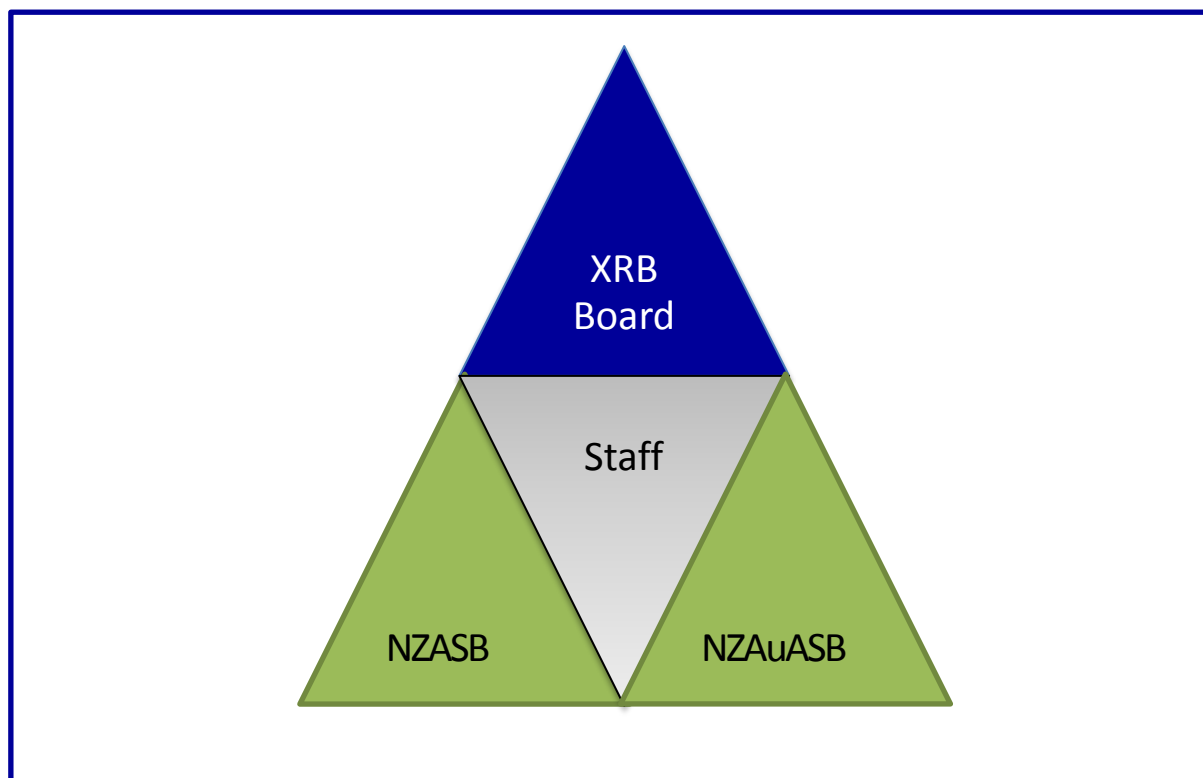
- The New Zealand Accounting Standards Board (NZASB) is responsible for accounting standard setting; and
- The New Zealand Auditing and Assurance Standards Board (NZAuASB) is responsible for auditing & assurance standard setting.

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 around 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 & assurance 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 carried-out in accordance with best practice, but also to enhance functional equivalence with Australia by ensuring that there is a New Zealand board to match the equivalent Australian board.

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

## Introduction

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

- Continuing to implement the "New Accounting Standards Framework";
- Continuing to implement the Auditing & Assurance Standards Framework;
- Responding to legislative changes;
- Maintaining the current suites of accounting and auditing & assurance standards;
- Engaging and communicating with stakeholders;
- Establishing the future strategic direction for the organisation; and
- Maintaining organisational capability and ensuring value for money.

The main activities are outlined below.

## Continuing to Implement the New 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>3</sup>. This document had been submitted by the Board to the Minister in accordance with section 34A of the Financial Reporting Act 1993 after an extensive development and consultation process begun by the ASRB in 2009.

The New Accounting Standards Framework establishes a multi-standards, multi-tier approach to financial reporting in New Zealand. Work on developing the accounting standards necessary to give effect to the Framework began during the 2011/12 financial year and has continued at pace since.

The standards relating to for-profit entities were finalised and issued in November 2012. The standards relating to Tier 1 and Tier 2 public sector public benefit entities were finalised and issued in May 2013.

During the 2013/14 financial year the focus has been on the remaining elements of the New Accounting Standards Framework.

The main achievements during the year include:

- *Finalising and issuing the Simple Format Reporting Standards for small public benefit entities.*

The New Accounting Standards Framework provides for public benefit entities (PBEs) in Tier 3 and Tier 4 to report using a simple format reporting approach. During the year four packages of Simple Format Reporting Standards (two for not-for-profit entities and two for public sector entities) were finalised and issued.

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<sup>3</sup> The approved document is available on the XRB website: [www.xrb.govt.nz](http://www.xrb.govt.nz)

This followed extensive development and consultation with both sectors. The packages consisted of the Standards together with explanatory guides and templates to help preparers apply the Standards. The Simple Format Reporting Standards are designed to take into account the small size of the entities in these tiers and are a significant innovation not existing elsewhere in the world. The release of these Standards means that, for the first time in New Zealand, there are a set of accounting standards designed specifically for not-for-profit entities.

- *Proposing enhancements to PBE Standards for not-for-profit entities.*

A package of 40 proposed “Enhancements to PBE Standards for NFP Entities” was also released during the year. The package contained the proposed standards that will apply to Tier 1 and Tier 2 not-for-profit entities, including the 1,000 or so large charities. Extensive consultation was carried-out in the first half of 2014 prior to the submission period closing in early May 2014. The standards will be finalised and issued early in the 2014/15 financial year. That will complete the development of the sets of accounting standards needed to give effect to the New Accounting Standards Framework.

## Continuing to Implement the Auditing & Assurance Standards Framework

During the year work continued on the various projects designed to bring the auditing & assurance standards into line with international standards and to ensure that they are harmonised with equivalent Australian standards. These are key elements of the Board’s Auditing & Assurance Standards Framework. This work followed the finalisation of a revised set of Professional and Ethical Standards for auditors which were issued in late 2012. The context for this work is the operation of the audit market and the Board continues to consider matters within its purview relating to that market, including matters relating to audit quality and auditor reporting.

The main achievements during the 2013/14 financial year include:

- Issuing two new Review Engagement Standards that are in-line with the international standard and harmonised with Australia. These standards provide greatly enhanced guidance for assurance practitioners undertaking review engagements. These standards will be of particular importance once the Accounting Infrastructure Bill 2013 is enacted as that Bill establishes Review Engagements as an option for statutory assurance for some registered charities;
- Issuing amendments to the New Zealand suite of International Standards on Auditing (ISA (NZ)) so they align with the international standards;
- Issuing amendments to ISA (NZ) to enhance harmonisation with equivalent Australian standards; and
- Working with the Australian Auditing and Assurance Standards Board (AUASB) to enhance the standards applying to assurance engagements other than audits or reviews of historical financial information.

This activity has completed the work necessary to give effect to the Board’s Auditing & Assurance Standards Framework, in particular the aligning of New Zealand auditing & assurance standards with the relevant international standards.

During the year the NZAuASB and the AUASB also had extensive discussions to develop processes and protocols to ensure harmonised standards are maintained in the future. This included the first ever joint meeting of the two boards. Those protocols are now being applied and are resulting in enhanced, harmonised auditing & assurance standards in both jurisdictions – something that is a key element of the Government’s Single Economic Market (SEM) Outcome Goals.

## Responding to Legislative Changes

In November 2013 Parliament enacted the Financial Reporting Act 2013 and the Financial Reporting (Amendments to Other Enactments) Act 2013. These are significant enactments from a financial reporting perspective and are directly related to the work of the XRB. They affected existing XRB standards which needed to be amended to reflect the new legislative requirements.

The main legislation-related activities carried-out during the year included:

- Issuing three wide ranging “omnibus standards”, following appropriate consultation and due process. These contained amendments to accounting standards and auditing & assurance standards to reflect the legislative changes. The amending standards were finalised in time for them to be effective when the legislative changes came into force on 1 April 2014;
- Issuing a new standard (Standard XRB A2) to provide defined meanings for certain new terms contained in the Financial Reporting Act 2013 (as required by that Act);
- Progressing the work on accounting standards for large not-for-profit entities to ensure that the relevant standards will be finalised and issued in time for registered charities to apply them in accordance with the amendments to the Charities Act when they come into force on 1 April 2015;
- Working with other government agencies on cross-over issues relating to the new financial reporting requirements contained in the amendments to the Financial Markets Conduct Act 2013 enacted as part of the Financial Reporting (Amendments to Other Enactments) Act 2013; and
- Delivering a seminar series targeted at Small and Medium Enterprises (SMEs) that focused on the change to financial reporting requirements for these entities. These seminars were delivered in the first quarter of 2014 in conjunction with Inland Revenue and the New Zealand Institute of Chartered Accountants.

## Maintaining Current Standards

In addition to the work to progress the new standards frameworks and to give effect to the legislative changes, the existing sets of standards have also been maintained during the year. This involves issuing in New Zealand, exposure drafts and standards that are issued by the international standard setting bodies, most notably the International Accounting Standards Board (IASB), the International Public Sector Accounting Standards Board (IPSASB), the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA).

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

In addition, the XRB has provided comment on relevant exposure drafts and other consultation documents issued for comment by the international boards, and by the International Integrated Reporting Committee (IIRC).

Significant work to develop a standard on Service Performance also occurred during the year. 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 enacted by Parliament in 2013.

In accordance with the Board's strategy of seeking to influence international standards during their development phase, during the year the XRB has also continued to actively contribute to a project being undertaken by the IPSASB to enhance the standards relating to accounting for interests in other entities. This culminated in IPSASB's release of five exposure drafts on this topic which occurred during the year.

Also during the year the XRB has:

- 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 International Federation of Accounting Standard Setters (IFASS), the Regional Policy Forum, the IESBA National Standard Setters meeting, the IAASB National Standard Setters meeting and an IESBA round table discussion;
- 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 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.

## Engaging and Communicating with Stakeholders

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

During the year there was consultation on a wide range of matters that were the subject of exposure drafts or discussion papers. This included seminars, webinars, podcasts, articles and one-on-one or small group discussions. The Board also had some general discussions with constituent groups about broader financial reporting matters.

During the year there were also extensive communications to help inform the constituency about financial reporting changes. These included:

- The publication of a number of explanatory guides that help explain the requirements of standards;

- A “Know Your Standard” campaign to publicise the legislative and accounting standards changes;
- General seminars on the new legislation and accounting standards;
- Seminars on the new legislation and accounting standards aimed at for-profit SMEs;
- Seminars on the new legislation and accounting standards aimed at large charities and other not-for-profit entities; and
- An “auditing standards update” seminar series.

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

Both the XRB and its two standard setting sub-boards continued to hold 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.

Ongoing enhancements to the XRB website were also made during the year. The website includes decision-trees designed to assist users identify the set of standards applicable to their organisation.

## Establishing the Future Strategic Direction

Upon establishment, the Board’s initial priority was to move as rapidly as possible to put in place the New Accounting Standards Framework and the Auditing & Assurance Standards Framework. This has been mostly completed during the first three years of the XRB’s existence.

However, the Board has always been of the view that putting the new Frameworks in place was only a first step towards achieving the on-going goal: a financial reporting framework and standards (both accounting and assurance) that have a meaningful user-needs focus and that appropriately manage the tensions between conflicting user-needs. It is only through ensuring that financial reporting (including the reporting of relevant non-financial information) is providing information of importance and relevance to users

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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 & 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 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.

of financial reports, in an appropriately balanced way, that the XRB's outcome goal can be achieved. The Board has coined the phrase "Giving Life to the User-Needs Framework" as a way of encapsulating this idea.

During the year the Board and its two sub-boards finalised a strategic plan for the XRB Organisation for the 2014-2019 strategic period. The Plan, which was published in April 2014, is based on this broad strategic direction while also recognising the need for a period of relative stability in XRB standards to allow time for constituents to implement the changes to standards that have occurred during the last three years.<sup>5</sup>

The strategic direction encapsulated in the Strategic Plan was reflected in the XRB's 2014-2019 Statement of Intent published at the time of the 2014 Budget. The Board is currently in the process of finalising a "Strategic Action Plan" to give effect to the Strategic Plan over the next 3-5 years.

## Maintaining Capability and Ensuring Value for Money

From an ownership performance point of view, the main operational focus during the year has been ensuring that the XRB Organisation is operating in an efficient and effective "steady-state" mode.

The organisation was fully staffed at year end and the Board does not have any capability concerns.

The Board remains conscious of the Government's fiscal constraints, the need to operate within our means, and to ensure value for money in all the XRB does. Accordingly, a cost-control, value for money, continuous improvement culture and approach continues to be promoted within the organisation. This includes participation in the All of Government procurement programme.

## Acknowledgements

The Board would like to acknowledge four of its members who retired during 2013/14: Ralph Simpson, Kevin Simpkins, Lynn Wood and Ken Warren. Ralph, Kevin and Ken were inaugural members of the XRB having been members of the ASRB before that, and all three made significant contributions to the establishment of the XRB and its work during the last three years. As Chair of the Australian Financial Reporting Council, Lynn Wood was also an important contributor to the Board over her term and provided important insights into standard setting in Australia.

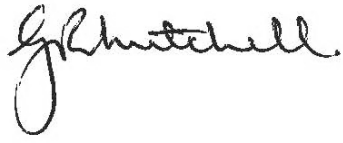
The Board would like to particularly recognise the role that Kevin Simpkins played as inaugural Chairman of the XRB, and prior to that as Chairman of the ASRB. Kevin's vision and passion for standard setting in New Zealand, and his leadership of the XRB and ASRB have been crucial to the Board's achievements during the first three years of its existence.

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 past year.

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<sup>5</sup> The XRB Strategic Plan is available at:  
[http://www.xrb.govt.nz/Site/about\\_us/Accountability\\_Documents.aspx](http://www.xrb.govt.nz/Site/about_us/Accountability_Documents.aspx)

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.

A handwritten signature in black ink, reading 'G Mitchell', with a stylized, cursive script.

Graeme Mitchell  
Chairman







## Part 2: Performance Report



# The XRB Performance Framework

## Introduction

The Board has adopted an overall performance framework to guide both the organisation's strategic direction and its day-to-day operations.

The performance framework for the 2013-14 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

### Government Priorities

The Government established the following as its priorities for the period covered by this annual report:

- *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. The Board did, however, seek to contribute to the Government's other priorities in ways appropriate to the XRB. This included ensuring that the accounting standards encourage reporting of the Government's finances in a transparent and meaningful way; and ensuring that the XRB operated in an efficient and fiscally prudent manner with a culture of continuous performance improvement.

### ***XRB's Outcome Goal***

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 way 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 and other stakeholders. To that end, one of the main purposes of financial reports is to promote the accountability of the 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 or ratepayers in the case of public sector 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). In this way high quality reporting contributes directly into the Government's Business Growth Agenda, particularly the capital markets input area.

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 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 and its Business Growth Agenda.

Accordingly, upon its establishment in 2011 the Board adopted the following outcome goal:

*The establishment of accounting and assurance standards that:*

- *engender confidence in New Zealand financial reporting;*
- *assist entities to compete internationally; and*
- *enhance entities' accountability to stakeholders.*

## Outputs

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

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

During the first three years of the XRB's existence this output involved the establishment of a new Accounting Standards Framework, and the strategic parameters for the development of auditing & assurance standards (both of which were finalised in the 2011-12 financial year). Much of the work of the XRB in the 2013-14 financial involved the ongoing 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 & 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. The Board has developed a Strategic Plan to give effect to this during the 2014-15 to 2018-19 period. That Strategic Plan, which is entitled "Giving Life to the User-Needs Framework", was published in April 2014.<sup>6</sup>

### **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 Board.

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<sup>6</sup> The Strategic Plan is available at: [http://www.xrb.govt.nz/Site/about\\_us/Accountability\\_Documents.aspx](http://www.xrb.govt.nz/Site/about_us/Accountability_Documents.aspx)

Much of the detailed standard setting work necessary to give effect to the new Accounting Standards Framework was completed as part of this output during the 2013-14 financial year.

Responding to pronouncements issued by the international accounting standard setting boards, the International Accounting Standards Board (IASB) and the International Public Sector Accounting Standards Board (IPSASB), and incorporating them into the New Zealand standards where appropriate, is also an important part of this output.

### ***Auditing & Assurance Standards***

The auditing & assurance standard output involves developing, consulting on, issuing and amending auditing & 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 Board.

Responding to pronouncements issued by the international auditing & assurance standard setting boards, the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA), and incorporating them into the New Zealand standards where appropriate, is also an important part of this output.

## **Planned and Achieved Performance**

### **Purpose of this Section**

This section outlines the XRB's planned performance for the 2013-14 financial year (as specified in the 2013-2016 Statement of Intent<sup>7</sup>, 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, assist entities to compete internationally, and enhance entities' accountability to stakeholders.*

### ***Contributing to the Outcomes***

This outcome goal is used as the lens through which the XRB organisation considers accounting standards and auditing & 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 assist international competitiveness, and will it improve entities' accountability to their stakeholders? Consideration is also given to the trade-offs between the three elements.

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<sup>7</sup> A copy of this Statement of Intent is available at:  
[http://www.xrb.govt.nz/Site/about\\_us/Accountability\\_Documents.aspx](http://www.xrb.govt.nz/Site/about_us/Accountability_Documents.aspx)

Some examples of how this approach is given effect 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).
- By contrast, the XRB's strategy in relation to accounting standards for public benefit entities places greater weight on ensuring that financial reporting engenders confidence and accountability to stakeholders. As international comparability is less of an imperative in this sector, there is a greater ability to modify the applicable international standards (International Public Sector Accounting Standards – IPSAS) for application in New Zealand.
- The accounting standards for Tier 3 and Tier 4 public benefit entities (i.e. small public sector and not-for-profit organisations) follow a simple format reporting approach. This 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.
- The presumption being followed by the NZAuASB in considering auditing & assurance standards is to adopt international standards unless *there are compelling reasons for a standard to be modified*. This 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).

### *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 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.

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 outcomes i.e. that would be meaningful for accountability.

Accordingly, the XRB assesses its performance primarily by reference to output delivery. The XRB considers that output, rather than outcome, based performance measurement to be the most appropriate for the XRB<sup>9</sup>.

In the XRB's view establishing measures, targets and benchmark information for its outcome goal would give a false indication of the degree of influence the XRB has over the outcome given the multitude of influencing factors that it does not control. Outcome based measures would therefore not provide meaningful information about XRB performance for accountability purposes.

The XRB also considers the relationship between the Overarching Outcome Goal, the Intermediate Outcome and the XRB Outcome Goal (see Figure 2) is relatively self-evident and clear, as is the nature of the XRB's contribution to these outcomes through the issuing of standards.

It would be a difficult and highly complex exercise to establish the specific causal links between the XRB's outputs and its outcome goal. The cost of developing detailed outcome and impact performance measures using current methods and processes is likely to outweigh the value of such information.

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<sup>9</sup> Amendments to the Crown Entities Act enacted in 2013 allow Crown Entities to determine the most appropriate basis for assessing their performance. Having considered this matter carefully the Board concluded an output based assessment of performance to be the most relevant for the XRB. This is discussed further in the XRB's 2014-19 Statement of Intent which is available at: [http://www.xrb.govt.nz/Site/about\\_us/Accountability\\_Documents.aspx](http://www.xrb.govt.nz/Site/about_us/Accountability_Documents.aspx)



Notwithstanding the inappropriateness of outcome based performance measurement, the XRB is deeply concerned with positively influencing the outcomes and significant focus and effort is applied to achieving this – as outlined in the section above. Accordingly, the XRB does monitor likely outcome contribution through cost effective means. This includes monitoring the state of financial reporting through information available from such bodies as the Companies Office, the Financial Markets Authority (FMA) and DIA Charities Services, as well as information in the public domain, such as the “Strength of Auditing and Reporting Standards” index in the Global Competitiveness Report produced by the World Economic Forum<sup>10</sup>. This monitoring is designed to allow the XRB to assess in a general way the extent to which the strategies adopted and the standards issued by the XRB are consistent with the XRB’s outcome goal.

## Output Delivery

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

*Output 1: Financial Reporting Strategy;*

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

*Output 3: Preparing and Issuing Auditing & 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 outputs were delivered much as expected during the year, especially in relation to the roll-out of the accounting and auditing & assurance standards frameworks – which was a key driver of output performance (see Part 1 of this Annual Report).

A second key aspect of the XRB’s output performance was responding to pronouncements issued by the international standard setting boards and incorporating them into the New Zealand standards where appropriate. The output of these boards fluctuates and this is reflected in the XRB’s output delivery for the year, which in relation to these standards, was higher than expected when the Statement of Intent was developed.

The additional output was 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.*

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<sup>10</sup> 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. 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. The index is available at: [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.

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.

<b>Financial Measure</b>	<b>2013/14 Actual (\$000)</b>	<b>2013/14 Budget (\$000)</b>
<i>Revenue</i>	4,455	4,440
<i>Expenses</i>	3,905	4,410
<i>Operating Surplus</i>	550	30
<i>Equity</i>	1,895	1,114
<i>Net Cash Flows from Operating</i>	591	169
<i>Net Increase in Cash</i>	549	159

### ***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 relating to its strategic plan such as research into user-needs for financial reports.

### ***Capital Expenditure***

The XRB's capital expenditure for the year was \$27,660. This mostly related to a small alteration to the Wellington office fitout to enhance productivity. 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.

2013/14 Actual	2013/14 Budget
<i>A full complement of suitably qualified staff was in place at the end of the financial year. Staff that left the organisation during the year were replaced with appropriately qualified staff.</i>	<i>Retaining a near full complement of suitably qualified staff</i>
<i>Both the Wellington and Auckland offices are at full operational capacity and have been for the entire financial year.</i>	<i>Maintaining full operational capability in the Wellington and Auckland offices</i>

### **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	2013/14 Actual	2013/14 Budget
<i>Loss of property and equipment</i>	<i>Insurance cover acquired</i>	<i>Insurance of property, plant and equipment</i>
<i>Loss of key staff</i>	<i>Cross training undertaken</i>	<i>Cross training</i>
<i>Loss of key data and records</i>	<i>Offsite backup in place</i>	<i>Off site backup</i>

## **Other Matters**

### **Employer Information**

#### **Workforce Profile**

During the year the XRB employed two new permanent staff members. This included a replacement for one senior permanent staff member that resigned during the financial year.

The XRB's workforce profile is as follows:

Workforce component	2013/14	2012/13
<i>Employees</i>	<i>15</i>	<i>15</i>
<i>Part-time</i>	<i>14%</i>	<i>14%</i>
<i>Women</i>	<i>80%</i>	<i>85%</i>
<i>Women in Management Team</i>	<i>50%</i>	<i>75%</i>
<i>Non-Pakeha Ethnicity</i>	<i>40%</i>	<i>40%</i>
<i>Maori</i>	<i>0%</i>	<i>0%</i>
<i>Pacific</i>	<i>0%</i>	<i>0%</i>
<i>Employees with Disabilities</i>	<i>0%</i>	<i>0%</i>

Workforce Age Profile	2013/14
<i>Under 30 years of age</i>	<i>1</i>
<i>30-39 years of age</i>	<i>6</i>
<i>40-49 years of age</i>	<i>3</i>
<i>50-59 years of age</i>	<i>4</i>
<i>≥60 years of age</i>	<i>1</i>

### ***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***

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 two geographical areas (Wellington and Auckland) 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 29% (29% in favour of men; 2013: 7% in favour of men). The gender pay gap for the staff involved in standard setting (the main professional group in the XRB) is 22% (22% in favour of men; 2013: 2% in favour of women). The gap reflects the differing seniority (and therefore salaries) of various positions in the XRB organisation. The change in the pay gap compared to the previous year is the result of a change of gender in relation to one staff position.

#### *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 organisation 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 following information is provided:

- In April 2014, the Board was given a direction by the Minister of State Services and Minister of Finance pursuant to section 107 of the Crown Entities Act 2004 to apply the Government Rules of Sourcing with effect from 1 February 2015;
- 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 2014

Output Class	2013/14 Actual	2013/14 Budget	2012/13 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 will be within this description	All activities undertaken during the year were within this description
<b>Cost (\$000)</b>	3,905	4,410	3,872
<b>Revenue from the Crown (\$000)</b>	4,410	4,410	4,410
<b>Revenue from Others (\$000)</b>	45	30	70

Output 1: Developing Financial Reporting Strategy	2013/14 Actual	2013/14 Budget	2012/13 Actual
<b>Quantity</b>			
Number of accounting standards frameworks being implemented	1 not-for-profit	1 not-for-profit	1 for –profit 1 public sector 1 not-for-profit
Number of amendments to accounting standards Tier Strategy submitted to Minister for approval	No amendments required	As required; expected to be 0-1	No amendments required
Number of auditing & assurance standards frameworks being implemented	1	1	1
<b>Quality</b>			
Accounting standards frameworks implemented in accordance with approved Tier Strategy	100% compliance	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 the Board).	No amendments required	100% consistent	No amendments required
<b>Timeliness</b>			
Implementation of standards frameworks	On-going throughout the year	On-going throughout the year	On-going throughout the year
Amendments to Tier Strategy	No amendments required	As required	No amendments required

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

- Submissions to international standard setting boards or other international organisations: 2
- Formal submissions on domestic matters: 2

<b>Output 2: Preparing and Issuing Accounting Standards</b>	<b>2013/14 Actual</b>	<b>2013/14 Budget</b>	<b>2012/13 Actual</b>
<b>Quantity</b>			
Number of exposure drafts and other due process documents issued relating to implementing the new accounting standards framework	45 <sup>+</sup>	30-40	14
Number of standards and related documents issued relating to implementing the new accounting standards framework	39 <sup>*</sup>	0	267
Number of exposure drafts and other due process documents relating to existing accounting standards suites issued	21 <sup>#</sup>	8-10 (depending on output of International Boards)	26
Number of standards and related documents relating to existing accounting standards suites issued	19 <sup>#</sup>	8-10 (depending on output of International Boards)	8
Number of projects undertaken on behalf of international accounting standard setters	1	1	1
<b>Quality</b>			
Due process documents and Standards reflect approved Tier Strategy (degree of compliance determined by NZASB)	100% compliance	100% compliance	100% compliance
Statutory due process requirements followed	100% compliance	100% compliance	100% compliance
Standards reflect relevant international standards with departures only to improve quality (quality improvement determined by NZASB)	100% compliance	100% compliance	100% compliance
For- profit standards harmonised with Australia where appropriate	100% compliance	100% compliance	100% compliance

Output 2: Preparing and Issuing Accounting Standards	2013/14 Actual	2013/14 Budget	2012/13 Actual
<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	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	100% compliance

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

- Submissions to national or international standard setting boards: 13

#### Explanation of major variances

- + This variance was primarily the result of more guidance material than planned being developed for not-for-profit entities, and additional exposure drafts to reflect legislative changes.
- \* This variance resulted from changed timing for the finalisation of simple format reporting accounting standards (later than originally expected due to an extended consultation period), and additional amending standards to reflect the new legislative framework.
- # Variances resulted from greater than expected output from the International Boards.

<b>Output 3: Preparing and Issuing Auditing &amp; Assurance Standards</b>	<b>2013/14 Actual</b>	<b>2013/14 Budget</b>	<b>2012/13 Actual</b>
<b>Quantity</b>			
Number of exposure drafts and other due process documents relating to auditing & assurance standards issued	4	3-6 (depending on output of International Boards)	10
Number of auditing & assurance standards and related documents issued	11#	4-6 (depending on output of International Boards)	12
<b>Quality</b>			
Statutory due process requirements followed	100% compliance	100% compliance	100% compliance
Standards reflect relevant international standards with departures only to improve quality (quality improvement determined by the NZAuASB)	100% compliance	100% compliance	100% compliance
Standards harmonised with Australia where appropriate	100% compliance	100% compliance	100% compliance
<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	100% compliance

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: 3

#### Explanation of major variances

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





## Part 4: Financial Statements





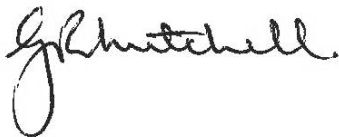
## **External Reporting Board Statement of Responsibility For the Year Ended 30 June 2014**

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 2014.

For the External Reporting Board  
21 October 2014



**Graeme Mitchell**  
Chairman



**Michele Embling**  
Deputy Chair

## External Reporting Board

### Statement of Comprehensive Income

#### For the Year Ended 30 June 2014

	Notes	XRB Actual 2014 \$000	XRB Budget 2014 \$000	XRB Actual 2013 \$000
<b>Income</b>				
Revenue from the Crown	(1)	4,410	4,410	4,410
Interest received		45	30	69
Other income		0	0	1
		4,455	4,440	4,480
<b>Expenses</b>				
Personnel Costs		1,932	2,404	2,044
Board Fees	(2)	630	699	597
General Operating Costs		369	234	214
Travel		328	359	343
Contributions to IASB & IPSASB		300	300	300
Premises Expenses		157	151	159
Depreciation and Amortisation	(3)	77	90	89
Website / IT costs		67	73	67
Professional Fees		23	75	40
Audit Fees		22	25	19
		3,905	4,410	3,872
<b>Surplus and Total Comprehensive Income</b>	<b>(4)</b>	<b>550</b>	<b>30</b>	<b>608</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 2014

	Notes	XRB Actual 2014 \$000	XRB Budget 2014 \$000	XRB Actual 2013 \$000
<b>Equity</b>		<b>1,895</b>	<b>1,114</b>	<b>1,345</b>
<b>Current Assets</b>				
Cash at Bank	(5)	1,894	1,124	1,345
Receivables	(6)	6	0	21
Prepayments		15	25	22
Investments	(7)	194	181	181
<b>Total Current Assets</b>		<b>2,109</b>	<b>1,330</b>	<b>1,569</b>
<b>Current Liabilities</b>				
Payables	(8)	377	282	384
Employee Entitlements	(9)	82	150	119
Rent Incentive	(11)	14	14	14
<b>Total Current Liabilities</b>		<b>473</b>	<b>446</b>	<b>517</b>
<b>Working Capital</b>		<b>1,636</b>	<b>884</b>	<b>1,052</b>
<b>Non-Current Assets</b>				
Property Plant & Equipment	(12)	271	234	317
Intangible Assets	(13)	6	6	9
<b>Total Non-Current Assets</b>		<b>277</b>	<b>240</b>	<b>326</b>
<b>Non-Current Liabilities</b>				
Rent Incentive	(11)	18	10	33
<b>Total Non-Current Liabilities</b>		<b>18</b>	<b>10</b>	<b>33</b>
<b>Total Net Assets</b>		<b>1,895</b>	<b>1,114</b>	<b>1,345</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 2014

	Notes	XRB Actual 2014 \$'000	XRB Budget 2014 \$'000	XRB Actual 2013 \$'000
<b>Equity as at 1 July</b>		1,345	1,084	1,802
Total Comprehensive Income		550	30	608
Return of Retained Earnings to the Crown		0	0	(1,065)
<b>Equity as at 30 June</b>		<b>1,895</b>	<b>1,114</b>	<b>1,345</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 2014

Notes	XRB Actual 2014 \$'000	XRB Budget 2014 \$'000	XRB Actual 2013 \$'000
<b>Cash Flows from Operating Activities</b>			
<i>Cash was provided from:</i>			
Revenue from the Crown	4,410	4,410	4,410
Interest received	41	30	79
	<b>4,451</b>	<b>4,440</b>	<b>4,489</b>
<i>Cash was disbursed to:</i>			
Payments to employees	1,969	2,365	2,013
Payments to suppliers	1,578	1,606	1,540
Contributions to International Standards Boards	300	300	300
Net payment of Goods and Services Tax	13	0	(6)
	<b>3,860</b>	<b>4,271</b>	<b>3,847</b>
<b>Net Cash Flow from Operating Activities (4)</b>	<b>591</b>	<b>169</b>	<b>642</b>
<b>Cash flows from Investing Activities</b>			
<i>Cash was provided from:</i>			
Investment	0	0	319
	<b>0</b>	<b>0</b>	<b>319</b>
<i>Cash was disbursed to:</i>			
Investment	14	0	0
Property, Plant & Equipment	24	10	9
Intangibles	4	0	6
	<b>42</b>	<b>10</b>	<b>15</b>
<b>Net Cash Flow from Investing Activities</b>	<b>(42)</b>	<b>(10)</b>	<b>304</b>
<b>Cash Flows from Financing Activities</b>			
<i>Cash was provided from:</i>			
Return of Retained Earnings to the Crown	0	0	(1,065)
	<b>0</b>	<b>0</b>	<b>(1,065)</b>
<b>Net Cash Flow from Financing Activities</b>	<b>0</b>	<b>0</b>	<b>(1,065)</b>
Net Increase/Decrease in Cash	549	159	(119)
Add Opening Cash Balance	1,345	965	1,464
<b>Closing Cash Balance</b>	<b>1,894</b>	<b>1,124</b>	<b>1,345</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 2014

#### (a) Reporting Entity

The Board was established by the Financial Reporting Act 1993, with continued existence under the Financial Reporting Act 2013. 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 & 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 & assurance standards for auditors providing assurance required by statute.

Accordingly, the Board is a public benefit entity for the purposes of Standard XRB A1 and in accordance with that standard has applied New Zealand Equivalents to International Financial Reporting Standards PBE (NZ IFRS (PBE)).

The financial statements for the Board are for the year ended 30 June 2014 and were approved by the Board on 21 October 2014.

#### (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 PBE, 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 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 for reporting periods beginning on or after 1 July 2014.

Due to the change in the Accounting Standards Framework for public benefit entities 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 rate:

- 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 PBE, 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 2014

#### 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 (2013: Nil).

#### 2. Board Fees

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

	Meetings Attended 2014	Board Fees 2014 \$	Other Fees 2014 \$	XRB Total 2014 \$
<i>Total meetings held for the year</i>	6			
Simon Carey	5/6	12,680	951	13,631
Neil Cherry	6/6	15,216	65,867	81,083
Annabel Cotton	5/6	12,680	1,268	13,948
Michele Embling	5/6	11,893	51,130	63,023
Graeme Mitchell	5/6	13,404	32,421	45,825
Kevin Simpkins*	4/6	12,288	58,368	70,656
Ralph Simpson*	2/6	5,072	0	5,072
Jane Taylor*	4/6	10,144	0	10,144
Ken Warren	6/6	0	0	0
Lyn Wood (FRC)	5/6	0	0	0
<b>Total Board Fees</b>		<b>93,377</b>	<b>210,005</b>	<b>303,382</b>

\* Kevin Simpkins retired from the Board in February 2014. Ralph Simpson resigned from the Board in October 2013. Jane Taylor joined the Board in December 2013.

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 Kevin Simpkins and Graeme Mitchell, it reflects their role as XRB Chairman.

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

	Meetings Attended 2013	Board Fees 2013 \$	Other Fees 2013 \$	XRB 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
Lynn Wood (FRC)	5/6	0	0	0
<b>Total Board Fees</b>		<b>100,515</b>	<b>263,431</b>	<b>363,946</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:

NZASB	Meetings Attended 2014	Board Fees 2014 \$	Other Fees 2014 \$	XRB Total 2014 \$
<i>Total meetings held for the year</i>	10			
Stephanie Allan	8/10	20,288	0	20,288
Carolyn Cordery	9/10	25,360	634	25,994
Kimberley Crook	10/10	28,530	38,674	67,204
Clyde D'Souza	10/10	27,896	634	28,530
Michele Embling	10/10	N/A	N/A	N/A
Karl Hickey	10/10	27,769	634	28,403
Robert Nelson	8/10	22,824	1,268	24,092
Angela Ryan	8/10	0	0	0
Greg Schollum	7/10	0	0	0
Kevin Stevenson (AASB)	7/10	0	0	0
<b>Total Committee Fees</b>		<b>152,667</b>	<b>41,844</b>	<b>194,511</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.

Other fees are payments made in relation to time spent on other matters over and above attendance at Board meetings.

<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>

\*Stephanie Allan was on maternity leave for a period during the 2012/13 year. She was granted a leave of absence from NZASB meetings during this time.

<b>NZAuASB</b>	<b>Meetings Attended 2014</b>	<b>Meeting Fees 2014 \$</b>	<b>Other Fees 2014 \$</b>	<b>XRB Total 2014 \$</b>
<i>Total meetings held for the year</i>	7			
Robert Buchanan	6/7	15,216	634	15,850
Neil Cherry	7/7	N/A	N/A	N/A
Craig Fisher	7/7	19,654	634	20,288
Roy Glass	6/7	N/A	N/A	N/A
Merran Kelsall (AUASB)	7/7	N/A	N/A	N/A
Pat Heslin	7/7	19,654	634	20,288
John Kensington	7/7	17,118	634	17,752
Marje Russ	7/7	19,654	634	20,288
Karen Shires	7/7	16,484	634	17,118
Rowena Sinclair	7/7	19,654	634	20,288
<b>Total Committee Fees</b>		<b>127,434</b>	<b>4,438</b>	<b>131,872</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.

Other fees are payments made in relation to time spent on other matters over and above attendance at Board meetings.

<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>

### 3. Depreciation and Amortisation

	<b>XRB Actual 2014 \$000</b>	<b>XRB Actual 2013 \$000</b>
<b>Depreciation and Amortisation</b>		
Depreciation	70	85
Amortisation	7	4
<b>Total Depreciation and Amortisation</b>	<b>77</b>	<b>89</b>

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

	<b>XRB Actual 2014 \$000</b>	<b>XRB Actual 2013 \$000</b>
<b>Total Comprehensive Income</b>	550	608
Depreciation and Amortisation	77	89
Amortisation of Rent Incentive	(14)	(14)
<i>Add/(less) movements in working capital items relating to operating activities:</i>		
Interest in advance	(3)	9
Employee entitlements	(37)	31
Prepayments	5	(1)
Payables	(6)	(79)
Receivables	19	(1)
<b>Net Cash from Operating Activities</b>	<b>591</b>	<b>642</b>

## 5. Cash at Bank

	XRB Actual 2014 \$000	XRB Actual 2013 \$000
<b>Cash at Bank</b>		
Cash at call	1,894	1,345
Cash on hand	0	0
<b>Total Cash at Bank</b>	<b>1,894</b>	<b>1,345</b>

## 6. Receivables

	XRB Actual 2014 \$000	XRB Actual 2013 \$000
Trade receivables	1	20
Interest accrual	5	1
<b>Total Receivables</b>	<b>6</b>	<b>21</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 Comprehensive Income during the current year (2013: \$Nil).

As at 30 June 2014, all receivables have been assessed for impairment and no provisions are required.

## 7. Investments

	XRB Actual 2014 \$000	XRB Actual 2013 \$000
BNZ Term Deposit	194	181
<b>Total Investments</b>	<b>194</b>	<b>181</b>

The term deposit matures on 9 November 2014 and carries an interest rate of 4.0% p.a. The carrying amount of term deposits approximates their fair value.

## 8. Payables

	XRB Actual 2014 \$000	XRB Actual 2013 \$000
Creditors	118	101
Accruals	29	40
GST payable	230	243
<b>Total Payables</b>	<b>377</b>	<b>384</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. Employee Entitlements

	XRB Actual 2014 \$000	XRB Actual 2013 \$000
Holiday Pay Accrual	61	100
Accrued Salaries and Wages	21	19
<b>Total Employee Entitlements</b>	<b>82</b>	<b>119</b>

## 11. Rent Incentive

### *Current Liability*

	XRB Actual 2014 \$000	XRB Actual 2013 \$000
Rent Incentive Wellington	9	9
Rent Incentive Auckland	5	5
<b>Rent Incentive</b>	<b>14</b>	<b>14</b>

### *Non-current Liability*

	XRB Actual 2014 \$000	XRB Actual 2013 \$000
Rent Incentive Wellington	18	28
Rent Incentive Auckland	0	5
<b>Rent Incentive</b>	<b>18</b>	<b>33</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

**2013/14**

<b>\$000</b>	<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	122	47	198	110	477
Additions	1	1	19	3	24
Disposals	0	0	0	1	1
<b>Closing Balance</b>	<b>123</b>	<b>48</b>	<b>217</b>	<b>112</b>	<b>500</b>
<b>Accumulated Depreciation</b>					
Opening Balance	25	27	27	81	160
Depreciation	13	14	15	28	70
Disposals	0	0	0	1	1
<b>Closing Balance</b>	<b>38</b>	<b>41</b>	<b>42</b>	<b>108</b>	<b>229</b>
<b>Carrying Amounts</b>					
At 30 June 2014	85	7	175	4	271
At 30 June 2013	97	20	171	29	317

**2012/13**

<b>\$000</b>	<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	47	194	109	469
Additions	3	0	4	1	8
Disposals	0	0	0	0	0
<b>Closing Balance</b>	<b>122</b>	<b>47</b>	<b>198</b>	<b>110</b>	<b>477</b>
<b>Accumulated Depreciation</b>					
Opening Balance	12	13	13	37	75
Depreciation	13	14	14	44	85
Disposals	0	0	0	0	0
<b>Closing Balance</b>	<b>25</b>	<b>27</b>	<b>27</b>	<b>81</b>	<b>160</b>
<b>Carrying Amounts</b>					
At 30 June 2013	97	20	171	29	317
At 30 June 2012	107	34	181	73	395



### 13. Intangible Assets

	XRB Actual 2014 \$000	XRB Actual 2013 \$000
<b>Cost</b>		
Opening Balance 1 July	16	10
Additions	4	6
Disposals	0	0
<b>Closing Balance 30 June</b>	<b>20</b>	<b>16</b>
<b>Accumulated Depreciation</b>		
Opening Balance 1 July	7	3
Depreciation	7	4
Disposals	0	0
<b>Closing Balance 30 June</b>	<b>14</b>	<b>7</b>
<b>Carrying Amount 30 June</b>	<b>6</b>	<b>9</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:

	<b>XRB Actual 2014 \$000</b>	<b>XRB Actual 2013 \$000</b>
<b>Loans and Receivables</b>		
Cash and Cash Equivalents	1,894	1,345
Receivables	6	21
Investments- Term Deposits	194	181
<b>Total Loans and Receivables</b>	<b>2,094</b>	<b>1,547</b>
<b>Financial Liabilities Measured at cost</b>		
Creditors	118	101
Accruals	29	40
GST payable	230	243
<b>Total Financial Liabilities Measured at Cost</b>	<b>377</b>	<b>384</b>

#### 15. Employee Remuneration

<b>Remuneration Range</b>	<b>XRB Actual 2014</b>	<b>XRB Actual 2013</b>
\$100,000 - \$109,999	2	2
\$120,000 - \$129,999	1	0
\$140,000 - \$149,999	2	3
\$150,000 - \$159,999	1	2
\$160,000 - \$169,999	1	1
\$170,000 - \$179,999	2	1
\$200,000 - \$209,999	0	1
\$220,000 - \$229,999	0	1
\$230,000 - \$239,999	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 (2013: \$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 2014 totalled \$232,914 (2013: \$205,710). These purchases include air travel from Air New Zealand, postal services from New Zealand Post, Gazetting expenses from Department of Internal Affairs and power from Mercury Energy.

#### *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 \$Nil (2013: \$2,980) 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 (2013: \$100,000) to the IPSASB.

#### *Key Management Personnel Compensation*

	<b>XRB Actual 2014 \$000</b>	<b>XRB Actual 2013 \$000</b>
Board meeting fees (remuneration to Board members)	303	364
Salaries and other short term employee benefits	692	762
<b>Total Key Management Personnel Compensation</b>	<b>995</b>	<b>1,126</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 (2013: nil).

#### **17. Severance Payments**

No severance payments were made to employees or Board members during the year (2013: nil).

#### **18. Indemnity Insurance**

The XRB has professional indemnity insurance at 30 June 2014 of \$1,000,000. (2013: \$1,000,000).

#### **19. Operating Lease Commitments**

	<b>XRB Actual 2014 \$000</b>	<b>XRB Actual 2013 \$000</b>
Not later than one year	148	140
Later than one year and not later than five years	228	361
Later than five years	0	0
<b>Total Operating Lease Commitments</b>	<b>376</b>	<b>501</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 (2013: nil).

## **21. Contingent Liabilities**

The Board has no material contingent liabilities (2013: nil).

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

There were no events after the balance sheet date. (2013: nil).

## **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. Various vacancies existed for varying periods during the year. 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.

#### *Professional Fees*

Professional Fees comprise amounts paid to technical contractors. The XRB has required less contracted technical expertise in the current financial year than allowed for in the budget.

#### *General Operating Costs*

General Operating costs exceeded budget in the current year due to costs incurred in relation to preparatory work for the implementation of a document management system and work completed in relation to compliance with the Public Record Act.

### **Statement of Financial Position**

#### *Cash at Bank*

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

#### *Payables*

The increased payables reflects a higher than expected level of creditors due at 30 June 2014.

### *Employee Entitlements*

The reduction in employee entitlements is due to considerable effort being taken to reduce outstanding leave balances.

### *Property, Plant and Equipment*

The increase in property, plant and equipment is largely due to minor office alterations carried out during the year.

## **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 2014

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 61, that comprise the statement of financial position as at 30 June 2014, the statement of comprehensive income, 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 33 to 37 and the report about outcomes on pages 22 to 25.

## Opinion

In our opinion:

- the financial statements of the Board on pages 42 to 61:
  - comply with generally accepted accounting practice in New Zealand; and
  - fairly reflect the Board's:
    - financial position as at 30 June 2014; and
    - financial performance and cash flows for the year ended on that date.
- the non-financial performance information of the Board on pages 33 to 37 and 22 to 25:
  - 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 2014, 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 2014. 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.

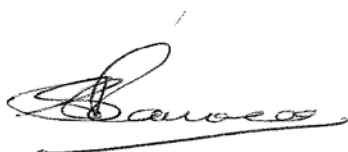
## **Responsibilities of the Auditor**

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 2013-14

- Simon Carey, Partner, Grant Thornton, Christchurch (term expires 16 August 2015).
- Neil Cherry, Business and Financial Consultant, Wellington (term expires 30 June 2016).
- Annabel Cotton, Investment Analyst and Accountant, Hamilton (term expires 30 June 2016).
- Michele Embling, Partner, PwC, Auckland (term expires 16 August 2015).
- Graeme Mitchell, Chartered Accountant, Wellington (Deputy Chairman until 28 February 2014, Chairman from 1 March 2014; term expires 28 February 2019).
- Kevin Simpkins, Adjunct Professor, Victoria University of Wellington (Chairman until 28 February 2014; term expired 28 February 2014).
- Ralph Simpson, Lawyer, Bell Gully, Auckland (resigned 21 October 2013).
- Jane Taylor, Lawyer and Company Director, Queenstown (appointed 9 December 2013, term expires 8 December 2018).
- Ken Warren, Chartered Accountant, The Treasury, Wellington (term expired 30 June 2014).
- Lynn Wood, Chairman, Financial Reporting Council of Australia (FRC), Sydney (term expired 10 June 2014).

### Members of the New Zealand Accounting Standards Board during 2013-14

- 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 (retired 30 June 2014)

## Members of the New Zealand Auditing and Assurance Standards Board during 2013-14

- 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 (term expired 30 June 2014)
- Pat Heslin, Partner, Deloitte, Dunedin.
- Merran Kelsall, Chairman Australian Auditing and Assurance Standards Board, Melbourne.
- John Kensington, Partner, KPMG, Auckland
- Marje Russ, Director Tonkin & Taylor, Auckland
- 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).

