



NZ ACCOUNTING
STANDARDS
BOARD

EXPOSURE DRAFT NZASB 2016-6

SERVICE PERFORMANCE REPORTING

(ED NZASB 2016-6)

Invitation to Comment

February 2016

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PO Box 11250
Manners St Central, Wellington 6142
New Zealand
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Information for Respondents

Invitation to Comment

The New Zealand Accounting Standards Board (NZASB)¹ is seeking comments on the specific matters raised in this Invitation to Comment. We will consider all comments before finalising a PBE Standard on service performance reporting.

If you want to comment, please supplement your opinions with detailed comments, whether supportive or critical of the proposals, as both supportive and critical comments are essential to a balanced view.

Comments are most useful if they indicate the specific paragraph to which they relate, contain a clear rationale and, where applicable, provide a suggestion for an alternative. Feel free to provide comments only for those questions, or issues that are relevant to you.

Submissions should be sent to:

Chief Executive
External Reporting Board
PO Box 11250
Manners St Central
Wellington 6142
New Zealand

Email: submissions@xrb.govt.nz
(please include the title of the Exposure Draft in the subject line)

We would appreciate receiving a copy of your submission in electronic form (preferably Microsoft Word format) as that helps us to efficiently collate and analyse comments.

Please note in your submission on whose behalf the submission is being made (for example, own behalf, a group of people, or an entity).

The closing date for submissions is 29 July 2016.

Publication of Submissions, the Official Information Act and the Privacy Act

We intend publishing all submissions on the XRB website (xrb.govt.nz), unless the submission may be defamatory. If you have any objection to publication of your submission, we will not publish it on the internet. However, it will remain subject to the Official Information Act 1982 and, therefore, it may be released in part or in full. The Privacy Act 1993 also applies.

If you have an objection to the release of any information contained in your submission, we would appreciate you identifying the parts of your submission to be withheld, and the grounds under the Official Information Act 1982 for doing so (e.g. that it would be likely to unfairly prejudice the commercial position of the person providing the information).

¹ The NZASB is a sub-Board of the External Reporting Board (XRB Board), and is responsible for setting accounting standards.

List of Abbreviations

The following abbreviations are used in this Invitation to Comment.

ED	Exposure Draft
IPSAS	International Public Sector Accounting Standard
IPSASB	International Public Sector Accounting Standards Board
NZASB	New Zealand Accounting Standards Board of the External Reporting Board
PBE	Public Benefit Entity
PBE FRS	Public Benefit Entity Financial Reporting Standard
PBE IAS	Public Benefit Entity International Accounting Standard
PBE IFRS	Public Benefit Entity International Financial Reporting Accounting Standard
PBE IPSAS	Public Benefit Entity International Public Sector Accounting Standard

Questions for Respondents

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1. Introduction

1.1 Purpose of this Invitation to Comment

1. The purpose of this Invitation to Comment is to seek comments on the proposed requirements in ED NZASB 2016-6 *Service Performance Reporting* (the ED) for application to Tier 1 and Tier 2 public benefit entities.

1.2 Background

2. There is currently no PBE Standard that focuses on service performance reporting. Appendix C of PBE IPSAS 1 *Presentation of Financial Statements* includes non-integral guidance on service performance reporting. The NZASB included the guidance in Appendix C of PBE IPSAS 1 as a short-term measure, with the intention of developing a separate standard on service performance reporting.
3. Public benefit entities have a primary objective of providing goods or services for community or social benefit. Reporting on their performance in respect of this objective is therefore an important aspect of a general purpose financial report. Financial statements provide financial information, but, in order to obtain a comprehensive picture of a public benefit entity's performance and to assess whether a public benefit entity has done what it said it would, it is necessary to have financial and non-financial information. These views are reflected in the Tier 3 and Tier 4 Simple Format Reporting Standards (which require information about the entity, what it did and why) and have shaped the proposals in this ED.
4. The NZASB's objective has been to develop proposals that are appropriate for a wide range of public benefit entities. Consistent with the scope of the requirements in the Tier 3 and 4 Simple Format Reporting Standards, the NZASB is proposing not to establish mandatory requirements for public sector public benefit entities unless they already have legislative reporting requirements to present service performance information. This means that:
 - (a) public sector public benefit entities with existing legislative requirements to present service performance information would be required to comply with the proposed standard;
 - (b) public sector public benefit entities without existing legislative requirements to present service performance information would be encouraged, but not required, to comply with the proposed standard; and
 - (c) not-for-profit public benefit entities would be required to comply with the proposed standard.
5. Because the NZASB considers that service performance information is an integral component of a general purpose financial report, it is also proposing amendments to PBE IPSAS 1 *Presentation of Financial Statements* to refer to both financial information, and, where appropriate, service performance information. In conjunction with these amendments, the NZASB is proposing to change the title of that standard to *Presentation of Financial Reports*.

1.3 Timeline and Next Steps

6. Submissions on ED NZASB 2016-6 are due by 29 July 2016. Information on how to make submissions is provided on page 3 of this Invitation to Comment.

7. After the consultation period ends, we will consider the submissions received, and subject to the comments in those submissions, we expect to finalise and issue a standard.

2. Overview of ED NZASB 2016-6

2.1 Approach

8. In developing ED NZASB 2016-6 the NZASB began by considering the relationship between service performance reporting and general purpose financial reporting and its role in setting standards for general purpose financial reporting.
9. The NZASB's views are that:
 - (a) General purpose financial reports include financial statements and other general purpose information such as service performance information.
 - (b) General purpose financial reports are intended to meet the information needs of users that cannot demand the information they require. This applies to both the financial statements and service performance reports.
 - (c) The objective of general purpose financial reports is to provide information that is useful for accountability and decision-making.
 - (d) By definition, public benefit entities provide goods or services for community or social benefit. There are strong arguments for the general purpose financial report of a public benefit entity to include information about service performance. This logic has already been applied in the Tier 3 and Tier 4 PBE Simple Format Reporting Standards.
 - (e) The NZASB's focus when setting standards is on the needs of external users of general purpose financial reports.
 - (f) The NZASB has a role, as a financial reporting standard setter, to develop principles for the preparation and presentation of service performance information. The NZASB should focus on the development of high-level principles which can be applied by a wide range of entities, including those that are subject to specific legislative reporting requirements.
10. The NZASB has attempted to develop principles-based standards-level requirements that can be applied by a wide range of public benefit entities in the context of general purpose financial reporting. It has deliberately used the general terms "service performance information" and "service performance reporting" throughout the proposed standard rather than referring to a "statement of service performance". The exception to this is the scope section which includes reference to a statement of service performance, as this term is often used in legislation.

2.2 Summary of the Content

11. The ED establishes principles and requirements for service performance information presented in a general purpose financial report. It also proposes amendments to PBE IPSAS 1 *Presentation of Financial Statements* to clarify that a general purpose financial report may include financial statements and service performance information.
12. The ED refers to three dimensions of service performance and, subject to the application of the qualitative characteristics and the pervasive constraints on information, requires information on all three dimensions. The three dimensions are:
 - (a) What did the entity do?: What goods and services (referred to as outputs) did the entity provide during the period?;
 - (b) Why did the entity do it?: What outcomes did the entity seek to influence?; and
 - (c) What impact did the entity have?
13. The ED explains that the nature of an entity's accountability and application of the qualitative characteristics will affect an entity's ability to report on these three dimensions.
14. The ED states that application of the qualitative characteristics and appropriate balancing of the constraints on information should result in service performance information that is appropriate and meaningful (paragraph 26 of the ED). The NZASB used the phrase "appropriate and meaningful" with the intention of providing preparers of service performance information, many of whom are non-accountants, with a useful way of thinking about whether the proposed service performance information appropriately reflects the application of the qualitative characteristics and constraints on information. The NZASB considered that an overarching phrase such as this could facilitate discussions regarding the appropriate selection of information and the overall volume of information presented.
15. The qualitative characteristics discussed in the ED are those in the IPSASB's *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. The NZASB recently consulted on the adoption of a Public Benefit Entities' Conceptual Framework based on the IPSASB's Conceptual Framework. The ED discusses the application of the qualitative characteristics to service performance information, particularly the importance of selecting relevant information and balancing the need to present an overall picture without providing too much detail. It notes that materiality is a key constraint to consider.
16. The ED proposes that an entity provide information on its outputs, the links between its outputs and the outcomes it seeks to influence, and its impact on those outcomes. It acknowledges that some entities will be unable to provide information on impacts that satisfies the qualitative characteristics.
17. The ED provides a brief description of performance indicators and matters to be considered when selecting performance indicators for inclusion in service performance information.

18. The ED proposes that an entity may include cross references to information outside of the service performance section of its general purpose financial reports to enhance the understandability of the service performance information.

Question for Respondents

1. Do you agree that the dimensions of service performance in the ED are a useful way of identifying the information to be reported by public benefit entities? If not, why not?
2. Do you agree that application of the qualitative characteristics and appropriate balancing of the pervasive constraints on information will result in appropriate and meaningful service performance information? If not, please explain why not and identify any alternative proposals.
3. Do you agree with the use of the term "appropriate and meaningful"? If not, please explain why not and identify any alternative proposals.
4. Do you agree with the proposed information to be reported? If not, please explain why not and identify any alternative proposals.
5. Do you agree that cross referencing to information outside of the service performance section of the general purpose financial reports should be permitted? If not, why not?

2.3 Scope

19. The NZASB is proposing that the requirements in the ED apply to all Tier 1 and Tier 2 not-for-profit public benefit entities and Tier 1 and Tier 2 public sector public benefit entities which are required by legislation to provide a statement of service performance (by whatever name called). This is similar to the scope of the service performance reporting requirements in the Tier 3 and 4 Simple Format Reporting Standards. This means that:
- (a) public sector public benefit entities with existing legislative requirements to report service performance information would be required to comply with the proposed standard;
 - (b) public sector public benefit entities without existing legislative requirements to report service performance information would be encouraged, but not required, to comply with the proposed standard; and
 - (c) not-for-profit public benefit entities would be required to comply with the proposed standard.
20. In forming an opinion on the proposed scope, the NZASB considered the costs and benefits of its proposals for both public sector public benefit entities with, and without, existing legislative requirements. The NZASB noted that some public benefit entities such as government departments, crown entities and local governments, have been subject to some form of performance reporting requirement for a number of years. Although these entities may encounter some issues in reporting in accordance with the proposed requirements, they will already have much of the information that would be required.
21. In the case of public sector public benefit entities which do not currently have legislative requirements to report service performance information, the NZASB considered a number of matters and decided that it would not be appropriate to

impose uniform external reporting requirements on such entities at this time. Amongst other matters, the NZASB noted that reporting by such entities is continuing to develop and that imposing new and different requirements on such public sector public benefit entities could conflict with some of the work that is underway.

22. In contrast to the public sector, the NZASB is not aware of any potential conflicts with existing or planned legislation in the case of not-for-profit public benefit entities. The NZASB also noted that many of these entities are already providing service performance information. The NZASB acknowledges that its proposals are likely to lead to increased costs for some not-for-profit entities. However, the NZASB is of the view that service performance reporting is necessary for users to gain a full understanding of the entity's performance and considers that its proposals will have significant benefits. The high-level principles-based approach adopted by the NZASB is intended to provide flexibility for entities to "tell their story" in a way that is meaningful for them and their users, without being too prescriptive.

Question for Respondents

6. Do you agree with the proposed scope in relation to:
- (a) public sector public benefit entities with existing legislative requirements to report service performance information;
 - (b) public sector public benefit entities currently without existing legislative requirements to report service performance information; and
 - (c) not-for-profit public benefit entities?

The NZASB would welcome information on the costs and benefits of the proposals in relation to specific types of entities. If you do not agree with the proposed scope, please explain why not and your views on what the scope should be.

2.4 Effective Date

23. The NZASB will determine the effective date of the proposed standard once it has been finalised. Although a number of public sector entities have been reporting service performance information for many years, many not-for-profit entities have not previously presented a comprehensive service performance report. The NZASB considers that a two year implementation period would be appropriate.

Question for Respondents

7. Do you agree that a two year implementation period would be appropriate?

2.5 Proposed Amendments to PBE IPSAS 1

24. The NZASB considers that service performance information is an integral component of a general purpose financial report. The NZASB is therefore proposing to change the title of PBE IPSAS 1 *Presentation of Financial Statements* to *Presentation of Financial Reports* and to amend PBE IPSAS 1 to refer to both financial and service performance information where appropriate. This is a significant change to PBE IPSAS 1, but the NZASB considers that it would be consistent with the proposed PBE Conceptual Framework and make it easier for entities preparing service performance information to understand how PBE IPSAS 1 applies to service performance information. This approach also allows for an audit opinion on the entire general purpose financial report.

25. The NZASB also considered an alternative approach whereby it would make fewer changes to PBE IPSAS 1 and would not change the title of that Standard.² Although this approach would result in fewer changes to one of the core presentation standards, it would not be as clear regarding how PBE IPSAS 1 applies to service performance information.
26. The NZASB is interested in constituents' views on these two possible approaches.

Question for Respondents

8. Do you agree with the proposal to change the title of PBE IPSAS 1 *Presentation of Financial Statements to Presentation of Financial Reports* and the proposed amendments to that Standard? If not, please explain why not and indicate your preferred alternative approach.

2.6 Other Matters

Projects of Other Accounting Standard Setters

27. In developing this ED the NZASB considered the following projects or sources of guidance:
- (a) the IPSASB's Recommended Practice Guide RPG 3 *Reporting Service Performance Information* (March 2015); and
 - (b) the Australian Accounting Standards Board's (AASB's) project to develop a standard on service performance reporting. The AASB issued ED 270 *Reporting Service Performance Information* in August 2015 and is in the process of seeking feedback on that ED.
28. The IPSASB's RPG 3 establishes principles for reporting service performance information and creates definitions for commonly used terms. The NZASB has considered the IPSASB's RPG and has found some aspects helpful in drafting ED NZASB 2016-6. However, there are a number of differences between the RPG and the proposed PBE Standard. The reasons for these differences include:
- (a) The NZASB is developing a standard, rather than guidance.
 - (b) The NZASB is focused on the needs of users of general purpose financial reports in New Zealand. User needs and user expectations regarding service performance reporting have been influenced by the legislative requirements that apply to many public sector entities and current practice.
 - (c) The proposed standard will be applied by both public sector entities and not-for-profit public benefit entities. The IPSASB was focused solely on public sector entities.
 - (d) The IPSASB developed RPG 3 with the intention that it could be applied by whole-of-government reporting entities. The Government of New Zealand would not fall within the scope of the proposed standard.

² The alternative approach considered by the NZASB would involve some amendments similar to those set out in the proposed consequential amendments (for example, amending paragraphs 2, 27 to 28.2, 62 and 150.1, adding paragraphs 2.1 and 20.1 and deleting the existing requirements on service performance reporting and Appendix C of PBE IPSAS 1). However, it would not involve the proposed amendments to other paragraphs.

29. The NZASB has shared ideas with the AASB to lead to a more consistent approach in Australia and New Zealand. However, the differences in legislative requirements between Australia and New Zealand and differing views on what is appropriate in an Australian versus a New Zealand context have led to differences in the proposals in this ED and those in AASB ED 270.

NZAuASB's Project

30. The New Zealand Auditing and Assurance Standards Board (NZAuASB) has an active project on service performance information. Following the issue of an accounting standard on service performance reporting for Tier 1 and Tier 2 public benefit entities the NZAuASB intends to develop an auditing standard and a review standard on service performance information.
31. In the interim the NZAuASB recognised a need for audit and assurance guidance for Tier 3 not-for-profit public benefit entities that are required to prepare a Performance Report in accordance with Public Benefit Entity Simple Format Reporting – Accrual (Not-For-Profit). The NZAuASB has issued guidance to assist assurance practitioners to apply ISAE (NZ) 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* to audit or review the entity information and the statement of service performance included in the Performance Reports concurrently with the audit or review of the financial statements. The guidance also covers the assurance opinion on the Performance Report, as well as illustrative engagement letters and illustrative representation letters.

Guidance

32. The NZASB is aware that, in addition to a standard on service performance reporting, more detailed guidance on aspects of service performance reporting would be useful. The NZASB proposes to develop non-authoritative guidance, in the form of an Explanatory Guide, and is interested in feedback on the type of guidance that entities consider would be useful.

Question for Respondents

9. What type of guidance should the NZASB develop to support entities preparing service performance information in accordance with the proposed standard?
10. Do you have any other comments on ED NZASB 2016-6?



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EXPOSURE DRAFT

Service Performance Reporting

This [draft] Standard was issued on [Date] by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This [draft] Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on [Date].

Reporting entities that are subject to this [draft] Standard are required to apply it in accordance with the effective date, which is set out in paragraph 65.

In finalising this [draft] Standard, the New Zealand Accounting Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This [draft] Standard has been issued to establish requirements for service performance reporting by Tier 1 and Tier 2 public benefit entities.

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ISBN

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<p>[Draft] Public Benefit Entity Financial Reporting Standard X <i>Service Performance Reporting</i> is set out in paragraphs 1–65 and Appendix A. All the paragraphs have equal authority. PBE FRS X should be read in the context of its objective, the Basis for Conclusions, and Standard XRB A1 <i>Application of the Accounting Standards Framework</i>. PBE IPSAS 3 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> provides a basis for selecting and applying accounting policies in the absence of explicit guidance.</p>
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Objective

1. **The objective of this [draft] Standard is to establish principles and requirements for an entity to present service performance information that is useful for accountability and decision-making purposes in a general purpose financial report.**

Accountability and Decision Making

2. Users of general purpose financial reports rely on those reports for information that is useful for accountability and decision making. Because public benefit entities have a primary objective of providing goods or services for community or social benefit their general purpose financial reports need to include service performance information. Service performance refers to the entity's delivery of goods and services with the intention of having an impact on society or segments of society.
3. The selection and presentation of aggregated service performance information requires judgement. In making decisions about what to report and how to present information an entity should consider the main groups of users and their information needs.
4. There are two general categories of users of service performance information, being funders and service recipients. In the case of central government entities, users are likely to be other government agencies, Members of Parliament, and specific service recipients or taxpayers (both individually and collectively). In the case of local government entities, users are likely to be central government, lenders, and specific service recipients or ratepayers (both individually and collectively). In the case of not-for-profit entities, users are likely to be those purchasing goods and services from the entity on behalf of the community or groups of the community; those providing other forms of funding including philanthropic bodies, individual donors, lenders and, where applicable, members; and service recipients (both individually and collectively).
5. From an accountability perspective users are interested in whether the entity used funds for the purpose intended (or where funds were provided for general purposes, in accordance with the entity's stated objectives) and what the entity achieved.
6. From a decision-making perspective:
 - (a) Funders may want information to predict the capacity of an entity to deliver services from its existing resource base or to form judgements about the effectiveness with which an entity might employ additional resources; and
 - (b) Members of a not-for-profit entity might need to decide whether to support an increase in membership fees, or whether to continue to belong to an entity.
7. Such decisions often require the use of both financial and non-financial information as users are interested both in how well an entity has performed, and in forming a view on whether it could have done more with the resources available.
8. The type of service performance information that is useful for accountability and decision making will differ between entities and some users will be more interested in certain aspects of service performance than others. For example, the nature of an entity's accountability for service performance may be influenced by legislation, the extent to which an entity can influence outcomes, and the nature of agreements between funders and an entity or between an entity and other entities that it uses to deliver goods and services.
9. This [draft] Standard requires that an entity report on three dimensions of service performance, but it acknowledges that entities will need to exercise judgement in deciding what to report in respect of each dimension. In deciding what to report an entity will be guided by the qualitative characteristics.
10. The dimensions of service performance which form the basis of the requirements in this [draft] Standard are:
 - (a) "What did the entity do?": What goods and services (referred to as outputs) did the entity provide during the period? An entity reports on this dimension of service performance by providing information about the outputs provided by an entity during the period.

- (b) “Why did the entity do it?”: What outcomes did the entity seek to influence? An entity reports on this dimension of service performance by providing information about the outcomes that it seeks to influence and how its outputs contribute to those outcomes.
- (c) “What impact did the entity have?”: An entity reports on this dimension of service performance by providing information about the extent to which it has evidence of its influence on the groups or environment that it is seeking to change.

Reporting on Outputs

11. This [draft] Standard requires that all entities within the scope of the [draft] Standard report on the outputs that they deliver. Therefore, entities need to identify the outputs that they should report on. Good output reporting requires clear specification of outputs and appropriate grouping of outputs into output classes. The reporting entity concept is relevant for both financial statements and service performance reporting. However, in the case of service performance reporting, it may be appropriate to report on some information that falls outside the boundary of the reporting entity.
12. Some entities deliver outputs directly to individuals, entities or groups. Other entities do not deliver outputs in such a direct manner. For example, public benefit entities sometimes:
 - (a) Work together with other entities that share common objectives to deliver outputs;
 - (b) Contract other entities to deliver outputs on their behalf; or
 - (c) Make grants to other entities to be used by those entities in delivering outputs.
13. When an entity delivers outputs in conjunction with another entity or collaborates with another entity in seeking to influence outcomes, it needs to consider the most appropriate and meaningful way of reporting on the outputs. For example, it may be appropriate to report on its portion of the outputs and the impact of those outputs, or it may be appropriate to report on the collective outputs and impact of the collective outputs, and explain its contribution.
14. When an entity has agreed to deliver outputs and then contracts with another entity to deliver those outputs on its behalf, the first entity remains accountable for the delivery of those outputs. Therefore, the first entity is responsible for ensuring that it reports performance accordingly.
15. When an entity makes grants to other entities to be used by those entities in delivering outputs, the entity will need to carefully consider its reporting on outputs. Some grants have no conditions or restrictions attached and can be used by the entity in receipt of the grant at its discretion. Other grants may be subject to detailed conditions that specify the outputs that are to be delivered by the entity in receipt of the grant. The entity will need to consider its purpose and the nature of the grants that it makes in deciding how to report outputs. The outputs reported may be the amounts distributed, or more detailed information about the purpose of the grants.

Reporting on Outcomes and Impacts

16. This [draft] Standard requires that all entities explain the outcomes that they seek to influence, how they consider their outputs contribute to those outcomes, and, where appropriate, what impacts the entity has had on those outcomes. However, the nature of an entity’s accountability for service performance will determine what it should report on. For example, an entity established to support another entity is accountable for how well it has supported the other entity, but it is unlikely to be accountable for its impact on the outcomes that the other entity is seeking to influence.
17. There are a number of reasons why explaining the link between an entity’s outputs and the outcomes that it seeks to influence or reporting on the extent to which an entity has influenced outcomes can be difficult. The two main reasons are the difficulty of identifying causal relationships, and the difficulty of obtaining information that is useful for accountability and decision making and can be measured in a way that achieves the qualitative characteristics.
18. Factors that may make it difficult for an entity to report on impacts include:
 - (a) The fact that an output may contribute to more than one outcome or that multiple outputs may contribute to an outcome;
 - (b) The existence of other entities that are also seeking to influence the same or similar outcomes;

- (c) The impact of factors outside the control of the entity (for example, economic or environmental conditions) on outcomes; and
 - (d) The long time frames that may be required to assess the impact of an entity's outputs on outcomes.
19. These difficulties can be partly addressed by reporting on intermediate outcomes as well as ultimate outcomes. Intermediate outcomes are more specific. They may have a shorter time frame than ultimate outcomes or they may relate to a more specific target group or target area. An entity may identify a number of intermediate outcomes that, taken together or in sequence, are expected to contribute to the ultimate outcome which the entity is seeking to influence. An explanation of the links between outputs, intermediate outcomes and ultimate outcomes, including the potential impact of other entities or external factors, is sometimes referred to as an impact chain or a logic model.
20. In reporting on impacts, an entity should consider the impact of its purchases of outputs from other entities or its financial support of other entities.

Scope

21. This [draft] Standard applies to all Tier 1 and Tier 2 not-for-profit public benefit entities. It also applies to Tier 1 and Tier 2 public sector public benefit entities which are required by legislation to provide a statement of service performance (by whatever name called).
22. Given the usefulness of service performance information for users of general purpose financial reports, all Tier 1 and Tier 2 public sector public benefit entities are encouraged to report service performance information in accordance with this [draft] Standard.
23. This [draft] Standard does not apply to service performance information that is condensed, prospective or summarised. PBE IAS 34 *Interim Financial Reporting*, PBE FRS 42 *Prospective Financial Statements*, and PBE FRS 43 *Summary Financial Statements* establish requirements for service performance information presented in general purpose reports that include interim financial statements, prospective financial statements and summary financial statements respectively. This [draft] Standard does not apply to other non-financial information presented in a general purpose financial report (for example, information about an entity's performance relating to its environmental goals or values), unless this information is directly linked to its service performance.

Definitions

24. The following terms are used in this [draft] Standard with the meanings specified:

Inputs: Resources used by an entity.

Outcomes: The impacts on society or segments of society as a result of the entity's outputs and operations.

Outputs: The goods and/or services provided by an entity to recipients external to the entity.

Performance indicators: Quantitative measures, qualitative measures and qualitative descriptions of the dimensions of service performance.

Terms defined in other PBE Standards are used in this [draft] Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.

Principles

25. An entity shall present service performance information that is useful for accountability and decision-making purposes. Presentation of service performance information together with financial statements should enable users to make assessments of the entity's performance.
26. An entity shall present service performance information that satisfies, to the extent possible, the qualitative characteristics of information, and appropriately balances the pervasive constraints on information in general purpose financial reports. Application of the qualitative characteristics and appropriate balancing of the constraints on information should result in service performance information that is appropriate and meaningful.

Qualitative Characteristics

27. The qualitative characteristics that make information in general purpose financial reports useful are relevance, faithful representation, understandability, timeliness, comparability, and verifiability.
28. When applying the qualitative characteristics to service performance information the following are important:
 - (a) **Relevance:** Relevance is particularly important in selecting and aggregating service performance information. Relevance is strongly linked with judgements about the materiality of information and the appropriate level of aggregation of information. Relevant information assists users in forming assessments about an entity's accountability for service performance and in making decisions that rely on information about service performance (for example, whether to provide funding to an entity to support its service performance activities or whether to work with an entity in the pursuit of common service performance objectives). Relevance should be applied in considering what, and how much, to report on the three dimensions of service performance. Relevance and understandability should be considered together because both the amount of information and the level of detail presented can affect understandability.
 - (b) **Faithful Representation:** To be useful, service performance information must be a faithful representation of the entity's service performance. Faithful representation is attained when the service performance information is complete, neutral, and free from material error. Completeness implies that the service performance information presents an overall impression of the entity's service performance with appropriate links to financial information. Neutrality implies that service performance information could reflect both favourably and unfavourably on the entity's service performance.
 - (c) **Understandability:** Service performance information should be communicated to users simply and clearly. The amount of information presented affects understandability.
 - (d) **Timeliness:** Service performance information should be reported to users before it loses its capacity to be useful for accountability and decision-making purposes.
 - (e) **Comparability:** Service performance information should provide users with a basis and context to compare an entity's service performance over time, and where appropriate, against planned performance or the performance of other entities.
 - (f) **Verifiability:** In order to be verifiable, the assumptions that underlie service performance information, the methodologies adopted in compiling that information, and the factors and circumstances that support any opinions expressed or disclosures made should be transparent. This will enable users to form judgements about the appropriateness of those assumptions and the method of compilation, measurement, representation and interpretation of the information.

Constraints

29. The pervasive constraints on information in general purpose financial reports are materiality, cost-benefit and balance between the qualitative characteristics. All of these constraints are important for selecting information in service performance reports and the level of detail that is provided.

Information to be Reported

Entity Information

30. **An entity shall present service performance information for the same reporting entity and reporting period as the financial statements.**
31. If the reporting entity is an economic entity comprising a controlling entity and controlled entities then service performance is reported in respect of that economic entity. If the reporting entity is a single entity then service performance is reported in respect of that single entity.
32. An entity's service performance plan may span a number of reporting periods. When an entity has multi-year service performance objectives it shall report on progress made towards the achievement of those objectives during the period. It may provide additional information on progress made towards the achievement of those objectives in other periods to provide context for the current period's performance.

Outputs and Outcomes

33. **An entity's service performance information shall include the following:**
- (a) **Outputs and performance indicators for outputs;**
 - (b) **Outcomes that the entity is seeking to influence and the links between the entity's outputs and those outcomes; and**
 - (c) **A description of the impact that the entity has had on the outcomes that it is seeking to influence and performance indicators to support that description.**
34. Public benefit entities produce a wide range of outputs. In the public sector common examples of outputs are policy advice, the administration of regulations, the provision of services, the production of goods, and the administration of grants and benefits. In the not-for-profit sector common examples of outputs are advocacy and the provision of goods and services: the goods and services may be provided in accordance with agreements with others or as determined by the entity itself. In the not-for-profit sector the definition of outputs includes goods and services provided to members.
35. As noted in the discussion of accountability and decision making in paragraphs 2–20, entities may provide goods and services directly, work with others to provide goods and services, or provide resources to others so that they may provide goods and services to end-recipients. An entity considers its relationships with other entities and the nature of its accountabilities in deciding what to report as its outputs. Although the reporting of outputs is limited to what an entity regards as *its outputs*, collaborative working relationships and the provision of resources to others is relevant when reporting on outcomes.
36. Performance indicators for outputs may include:
- (a) The quantity of the outputs;
 - (b) The quality of the outputs;
 - (c) The timeframe over which the outputs were produced;
 - (d) The physical location where the outputs were delivered; and
 - (e) The cost of the outputs.
37. The indicators in paragraph 36 can often be used to provide a comprehensive description of outputs. Reporting on the cost of outputs provides an important link between the financial statements and service performance information but it may not always be practicable, or the most appropriate way of reporting on outputs. The reporting on the cost of outputs will depend on an entity's accounting policies and its cost allocation policies.
38. If an entity reports on the cost of outputs it shall provide a reconciliation between the expenses in the financial statements and the total output costs reported in the service performance information.
39. The amount of expenses reported in the financial statements will depend on the extent to which an entity has recognised goods and services in-kind as revenue and expenses. PBE IPSAS 23 *Revenue from Non-Exchange Transactions* establishes requirements for the recognition of donated goods and services. Where unrecognised goods or services in-kind are a significant component of producing outputs, any cost information provided should also acknowledge the use of these resources.
40. The nature of an entity's accountability for outcomes may be determined by:
- (a) Legislation, contractual or other agreements; or
 - (b) The entity's assertions regarding its role in influencing outcomes.
41. Examples of broadly expressed outcomes are improving the health status of children, reducing the level of violent crime, and increasing sustainable economic growth. Outcomes may also be expressed more specifically. For example, a more detailed outcome could be expressed as reducing the incidence of a particular disease, in children aged 1-5 in a certain location.

42. As noted in the earlier discussion of accountability and decision making, some of the difficulties encountered in explaining the link between an entity's outputs and the outcomes that it seeks to influence can be partly addressed by reporting on intermediate outcomes as well as ultimate outcomes and describing the potential impact of other factors on outcomes. The identification of intermediate outcomes may assist an entity to describe meaningful links between its outputs and its influence on outcomes. An explanation of the entity's view of the links between outputs, intermediate outcomes and ultimate outcomes provides appropriate context for an assessment of the entity's service performance.
43. Key aspects of information on outcomes and the entity's influence on outcomes are:
- (a) Descriptions of the population or target group for outcomes, including information on the current status of the population or target group. The target population for outcomes is those individuals or segments of society that will receive or benefit most directly from the entity's outputs. Other terms that may be used to describe the target population are clients, participants, consumers, beneficiaries and audience. In the case of some not-for-profit entities, members might comprise the target population;
 - (b) An explanation of the entity's understanding of how it influences outcomes including the logic and evidence that links key outputs with outcomes. This explanation may require the identification of one or more intermediate outcomes;
 - (c) Evidence of how the entity has influenced outcomes, supported by performance indicators. This evidence could be supported by information regarding the credibility of evidence about what impacts have occurred and the extent to which these can be credibly attributed to the entity, where such information is available;
 - (d) The rationale for the selection of performance indicators; and
 - (e) Other factors that have affected the entity's ability to influence outcomes. These factors may include working relationships with volunteers and employees, relationships with other entities with similar performance objectives, decisions to broaden or narrow the delivery of services, or external factors such as economic, legal or geographical factors.
44. Paragraphs 26–29 of this [draft] Standard explain that information in a service performance report is subject to the qualitative characteristics and pervasive constraints on information in general purpose financial reports. Application of the qualitative characteristics and constraints on information is likely to result in some entities providing more information than others on the entity's influence on outcomes. Information on impacts should be reported only where the entity has evidence about the links between outputs and outcomes, and the information can be measured in a way that meets the qualitative characteristics and constraints. For example, an entity may be unable to provide evidence of its impact on outcomes that satisfies the qualitative characteristics. In such cases an entity should state this fact.

Performance Indicators

45. In order to be appropriate and meaningful the performance indicators used to report on an entity's service performance need to provide an overall picture of the relevant dimensions of the entity's service performance. The set of performance indicators reported should assist users of a general purpose financial report to obtain an overall picture of the outputs provided by an entity, and where relevant, the extent to which an entity has had an impact on those outcomes it seeks to influence.
46. Performance indicators are the measures or descriptions used by an entity to communicate the achievement of service performance. They may be:
- (a) Quantitative measures: Examples of quantitative measures are the quantity of outputs produced, the cost of outputs, the time taken to provide an output, or a numerical target for an outcome;
 - (b) Qualitative measures: Examples of qualitative measures are descriptors such as compliance or non-compliance with a quality standard; or
 - (c) Qualitative descriptions: Examples of qualitative descriptions are descriptions of service performance achievement based on participant observations, and open-ended questions on interviews and surveys.

Selection of Performance Indicators

47. In selecting the performance indicators to be reported an entity considers the qualitative characteristics and the constraints on information in general purpose financial reports. Judgement is needed to determine the most appropriate and meaningful performance indicators to be reported. They should measure aspects of performance that are of particular value or importance for accountability or decision-making purposes.
48. An entity is likely to use more performance indicators for internal management purposes than would be appropriate for users of a general purpose financial report. To ensure that the information is understandable and to avoid overwhelming users, entities generally will need to identify only those key performance indicators that will best meet users' needs for the services presented.
49. Output performance indicators should be controllable by the entity or, at a minimum, the entity should have a reasonable level of influence over achieving the performance specified.
50. Performance indicators should have an external focus. Outputs are provided by an entity to recipients external to the entity. Therefore, performance indicators should not focus on internal activities or internal processes, plans or policies.
51. Performance indicators may be used to inform assessments of efficiency and effectiveness or they may attempt to provide information directly on an entity's efficiency and effectiveness in relation to its service performance.

Presentation

52. This [draft] Standard does not prescribe the format of service performance information. Entities should develop a format that best meets the information needs of their users. Information may, for example, be presented in the form of graphs, pie charts or columns, with explanatory comments in "pop-up" boxes or similar.
53. An entity should include cross references between the service performance information and the financial statements so that users can assess the service performance information within the context of the financial statements.
54. An entity may present the information required by this [draft] Standard outside of the service performance section of its general purpose financial report, or outside the general purpose financial report, if:
 - (a) It is still possible to identify the complete set of service performance information presented in accordance with this [draft] Standard;
 - (b) Locating the information elsewhere enhances the understandability of the financial report as a whole and the service performance information remains understandable and fairly presented;
 - (c) The information is incorporated into the service performance information by cross-reference; and
 - (d) The information is available to users of the service performance information on the same terms as the financial report and at the same time.
55. Incorporating service performance information by cross-reference enhances the understandability of the service performance information if it:
 - (a) Links related information together so that the relationships between items of information are clear; and/or
 - (b) Reduces duplication of information.
56. If an entity applies cross-referencing in accordance with paragraph 54, it shall:
 - (a) Disclose, together with the statement of compliance in accordance with paragraph 28 of PBE IPSAS 1 *Presentation of Financial Reports*, a list of cross-referenced information that forms part of a complete set of service performance information in accordance with this [draft] Standard;
 - (b) Depict cross-referenced information as being information prepared in accordance with this [draft] Standard (and audited if applicable);
 - (c) Make the cross-referencing direct and precise as to what it relates to; and
 - (d) Ensure cross-referenced information remains available over time at the cross-referenced location.

Comparative Information and Consistency of Reporting

57. **An entity shall report comparative information for the previous period. Comparative information shall be included for all amounts reported in the service performance information. Comparative information shall be included for narrative and descriptive information when it is relevant to an understanding of the current period's service performance information.**
58. PBE IPSAS 1 requires that where an entity has published general purpose prospective financial statements or general purpose prospective service performance information for the period of the financial report, the entity shall present a comparison of the prospective financial report with the historical financial report being presented. PBE IPSAS 1 also requires explanations of major variances.
59. An entity shall consider whether original levels of planned activity or revised plans provide the most relevant and useful information. Information about revisions to plans during the period may help explain variances between original plans and actual results.
60. Paragraph 32 of this [draft] Standard explains that an entity with multi-year service performance objectives may choose to provide information on progress made towards the achievement of those objectives in prior periods to provide context for the current period's performance.
61. **An entity shall report service performance information consistently. An entity may change aspects of its service performance reporting to reflect changes in its service performance activities or in order to better meet the qualitative characteristics. When an entity changes its service performance reporting it shall disclose the nature of those changes and their effect on the current period.**
62. There are a number of situations in which an entity might change what it reports or how it reports its service performance information. Possible reasons include changes in:
- (a) The nature of the entity's activities from the prior period or from what was planned;
 - (b) The classification of outputs to output classes;
 - (c) The description of output classes;
 - (d) The performance indicators used or the measurement of performance indicators; and
 - (e) The costing policies.
63. Changes to comparative information are permitted, but not required. If an entity chooses to restate prior period or budget comparatives it should also disclose the impact of the changes on that comparative information.
64. **An entity shall correct material prior period errors, in the first service performance information authorised for issue after the discovery of the errors, by restating the comparative information for any prior period(s) presented in which the error occurred. If the error relates solely to narrative information, an explanation of the error shall be disclosed.**

Effective Date

65. **A public benefit entity shall apply this [draft] Standard for annual financial reports covering periods beginning on or after [Date]. Earlier application is permitted.**

Appendix A

Amendments to Other Standards

PBE IPSAS 1 *Presentation of Financial Statements*

The title of the Standard is changed from “*Presentation of Financial Statements*” to “*Presentation of Financial Reports*”. This change is made throughout the Standard.

Paragraphs 1–3, 7, 7.1, 15–17, 19, 21, 24.1, 25–28, 28.2, 28.4, 29, 31–33, 35–36, 38–39, 41–45, 46A, 47, 53–55, 59–66, 68–69, 83, 85, 87, 116.1, 127–129, 131–134, 137–138, 144, 148A, 148C, 148.1, 149–150 and 154.1 are amended.

The heading above paragraphs 15, 19, 20.1, 61 and 148.1 are amended.

Paragraphs 17.1, 20.1, 24.2 46A.1, 46A.2, 126.1 (and a heading above that paragraph) and 154.5 are added.

Paragraphs 18 and 150.1–150.10 and the heading above those paragraphs, are deleted.

Appendix C is withdrawn.

New text is underlined and deleted text is struck through.

Objective

1. The objective of this Standard is to prescribe the manner in which general purpose financial reports, comprising financial statements and, where required, service performance information¹, should be presented to ensure comparability both with the entity’s ~~financial statements~~ reports of previous periods and with the ~~financial statements~~ reports of other entities. To achieve this objective, this Standard sets out overall considerations for the presentation of financial ~~statements~~ reports, guidance for their structure, and minimum requirements for the content of financial ~~statements~~ reports. The recognition, measurement, and disclosure of specific transactions and other events are dealt with in other PBE Standards.

¹ Reporting service performance information alongside the financial statements provides a comprehensive picture of an entity’s activities during the period. PBE FRS X *Service Performance Reporting* specifies which entities are required to report service performance information in accordance with that Standard.

Scope

2. This Standard shall be applied to all general purpose financial ~~statements~~ reports prepared and presented in accordance with PBE Standards.
3. General purpose financial ~~statements~~ reports are those intended to meet the needs of users who are not in a position to demand reports tailored to meet their particular information needs. Users of general purpose financial ~~statements~~ reports include taxpayers and ratepayers, members of the legislature, donors, service recipients, creditors, suppliers, the media, and employees. General purpose financial ~~statements~~ reports include those that are presented separately or within another public document, such as an annual report. This Standard does not apply to condensed interim financial information (see PBE IAS 34 *Interim Financial Reporting*), prospective financial information (see PBE FRS 42 *Prospective Financial Statements*), or summary financial information (see PBE FRS 43 *Summary Financial Statements*).

Definitions

7. The following terms are used in this Standard with the meanings specified:

Material Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements or service performance information. Materiality depends on the nature and size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.

Notes contain information in addition to that presented in the statement of financial position, statement(s) of comprehensive revenue and expense, statement of changes in net assets/equity, and cash flow statement, and service performance information. Notes provide narrative descriptions or

disaggregations of items disclosed in those statements and information about items that do not qualify for recognition in those statements.

7.1 The following terms are used in this Standard with the meaning specified:

~~Inputs are the resources used to produce the goods and services which are the outputs of the entity.~~

~~Outcomes are the impacts on society or segments of society as a result of the entity's outputs, or consequences for, the community resulting from the existence and operations of the entity.~~

~~Outputs are the goods and/or services produced provided by the an entity to recipients external to the entity.~~

Purpose of Financial Statements Reports

15. Financial ~~statements~~ reports are a structured representation of the financial position, ~~and~~ financial performance and service performance of an entity. The objectives of a general purpose financial ~~statements~~ report are to provide information about the financial position, financial performance, ~~and~~ cash flows, and service performance of an entity that is useful to a wide range of users in making and evaluating decisions about the allocation of resources. Specifically, the objectives of general purpose financial reporting should be to provide information useful for decision making, and to demonstrate the accountability of the entity for the resources entrusted to it, by:

...

- (e) Providing aggregate information useful in evaluating the entity's performance in terms of service delivery, costs, efficiency, and accomplishments.

16. General purpose financial ~~statements~~ reports can also have a predictive or prospective role, providing information useful in predicting the level of resources required for continued operations, the resources that may be generated by continued operations, and the associated risks and uncertainties. Financial reporting may also provide users with information:

...

17. To meet these objectives, ~~the a~~ financial ~~statements~~ report provides information about an entity's:

...

17.1 Where required, a financial report also provides information about an entity's:

(a) Outputs; and

(b) Outcomes.

18. ~~[Deleted by NZASB] Although the information contained in financial statements can be relevant for the purpose of meeting the objectives in paragraph 15, it is unlikely to enable all these objectives to be met. This is likely to be particularly so in respect of entities whose primary objective may not be to make a profit, as managers are likely to be accountable for the achievement of service delivery as well as financial objectives. Supplementary information, including non financial statements, may be reported alongside the financial statements in order to provide a more comprehensive picture of the entity's activities during the period.~~

Responsibility for Financial Statements Reports

19. The responsibility for the preparation and presentation of financial ~~statements~~ reports varies across entities. In addition, an entity may draw a distinction between who is responsible for preparing the financial ~~statements~~ report and who is responsible for approving or presenting the financial ~~statements~~ report. Examples of people or positions who may be responsible for the preparation of the financial statements report of individual entities (such as government departments or their equivalent) include the individual who heads the entity (the permanent head or chief executive) and the head of the central finance agency (or the senior finance official, such as the controller or accountant-general). Examples of people or positions who may be responsible for the preparation of the financial ~~statements~~ report in the not-for-profit sector would be the chief executive officer, the Chairperson, the chief financial officer or the treasurer of the entity, who could be either employees or volunteers. Regardless of who prepares the financial ~~statements~~ report, the governing body is usually responsible for presenting ~~those~~ the financial ~~statements~~ report.

Components of Financial Statements Reports

20.1 A complete financial report comprises:

- (a) A complete set of financial statements; and
- (b) Service performance information, where this is required to be reported, including any notes.

21. A complete set of financial statements comprises:

...

- (f) Notes to the financial statements, comprising significant accounting policies and other explanatory notes; and

...

24.1 Where an entity presents a comparison, in the financial statements report, ...

24.2 Where an entity presents a comparison, in the financial report, of prospective service performance information and actual service performance information, such a comparison shall be in accordance with the requirements of this Standard.

25. Entities are encouraged to present additional information to assist users in assessing the performance of the entity, and its stewardship of assets, as well as making and evaluating decisions about the allocation of resources. This additional information may include ~~details about the entity's outputs and outcomes in the form of (a) performance indicators, (b) statements of service performance, (c) programme reviews, and (d) other reports by management about the entity's achievements over the reporting period.~~
26. Entities are also encouraged to disclose information about compliance with legislative, regulatory, or other externally-imposed regulations. When information about compliance is not included in the financial statements report, ...

Overall Considerations

Fair Presentation and Compliance with PBE Standards

***27. Financial statements reports shall present fairly the financial position, financial performance, ~~and cash flows, and service performance~~ of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue, ~~and expenses, outputs and outcomes~~ set out in PBE Standards. The application of PBE Standards, with additional disclosures when necessary, is presumed to result in financial statements reports that achieve a fair presentation.**

RDR27.1 Financial statements reports shall present fairly the financial position, financial performance ~~and cash flows, and service performance~~ of a Tier 2 entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue, ~~and expenses, outputs and outcomes~~ set out in the PBE Standards. The application of PBE Standards Reduced Disclosure Regime (PBE Standards RDR), with additional disclosure when necessary, is presumed to result in financial statements reports that achieve a fair presentation.

***28. An entity whose financial ~~statements report~~ complies with Public Benefit Entity Standards (PBE Standards) shall make an explicit and unreserved statement of such compliance in the notes. Financial statements reports shall not be described as complying with PBE Standards unless they comply with all the requirements of PBE Standards.**

RDR 28.1 ...

28.2 An entity shall disclose in the notes:

- (a) The statutory basis or other reporting framework, if any, under which the financial statements report ~~is~~ prepared;

...

RDR 28.3 ...

28.4 A number of entities are required by legislation to prepare general purpose financial statements or financial reports that comply with GAAP...:

- (a) An entity complying with Tier 1 Accounting Requirements would state: “The financial statements [and service performance information] have been prepared in accordance with PBE Standards”; and
- (b) An entity complying with Tier 2 Accounting Requirements would state: “The financial statements [and service performance information] have ...

29. In virtually all circumstances, a fair presentation is achieved by compliance with applicable PBE Standards. A fair presentation also requires an entity:

...

- (c) To provide additional disclosures when compliance with the specific requirements in PBE Standards is insufficient to enable users to understand the impact of particular transactions, other events, and conditions on the entity’s financial position, ~~and~~ financial performance and service performance.

31. **In the extremely rare circumstances in which management concludes that compliance with a requirement in a Standard would be so misleading that it would conflict with the objective of financial statements reports set out in this Standard, the entity shall depart from that requirement in the manner set out in paragraph 32 if the relevant regulatory framework requires, or otherwise does not prohibit, such a departure.**

32. **When an entity departs from a requirement of a Standard in accordance with paragraph 31, it shall disclose:**

- (a) **That management has concluded that the financial statements report presents fairly the entity’s financial position, financial performance, ~~and~~ cash flows, and service performance;**
- (b) ...
- (c) **The title of the Standard from which the entity has departed, the nature of the departure, including the treatment that the Standard would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements reports set out in this Standard, and the treatment adopted; and**
- (d) **For each period presented, the financial impact of the departure on each item in the financial statements report that would have been reported in complying with the requirement.**

33. **When an entity has departed from a requirement of a Standard in a prior period, and that departure affects the amounts recognised in the financial statements report for the current period, it shall make the disclosures set out in paragraph 32(c) and (d).**

...

35. **In the extremely rare circumstances in which management concludes that compliance with a requirement in a Standard would be so misleading that it would conflict with the objective of financial statements reports set out in this Standard, but the relevant regulatory framework prohibits departure from the requirement, the entity shall, to the maximum extent possible, reduce the perceived misleading aspects of compliance by disclosing:**

- (a) **The title of the Standard in question, the nature of the requirement, and the reason why management has concluded that complying with that requirement is so misleading in the circumstances that it conflicts with the objective of financial statements reports set out in this Standard; and**
- (b) **For each period presented, the adjustments to each item in the financial statements report that management has concluded would be necessary to achieve a fair presentation.**

36. For the purpose of paragraphs 31–35, an item of information would conflict with the objective of financial statements reports when it does not represent faithfully the transactions, other events, and conditions that it either purports to represent or could reasonably be expected to represent and,

consequently, it would be likely to influence decisions made by users of financial ~~statements~~reports. When assessing whether complying with a specific requirement in a Standard would be so misleading that it would conflict with the objective of financial ~~statements~~ reports set out in this Standard, management considers:

- (a) Why the objective of financial ~~statements~~ reports is not achieved in the particular circumstances; and
- (b) How the entity's circumstances differ from those of other entities that comply with the requirement. If other entities in similar circumstances comply with the requirement, there is a rebuttable presumption that the entity's compliance with the requirement would not be so misleading that it would conflict with the objective of the financial ~~statements~~ reports set out in this Standard.

...

Going Concern

38. When preparing a financial ~~statements~~report, an assessment of an entity's ability to continue as a going concern shall be made. This assessment shall be made by those responsible for the preparation of the financial ~~statements~~report. Financial ~~statements~~ reports shall be prepared on a going concern basis unless there is an intention to liquidate the entity or to cease operating, or if there is no realistic alternative but to do so. When those responsible for the preparation of the financial ~~statements~~ report are aware, in making their assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, those uncertainties shall be disclosed. When financial ~~statements~~ reports are not prepared on a going concern basis, that fact shall be disclosed, together with the basis on which the financial ~~statements~~ report ~~is~~are prepared and the reason why the entity is not regarded as a going concern.
39. Financial ~~statements~~ reports are normally prepared on the assumption that the entity is a going concern and will continue in operation and meet its statutory obligations for the foreseeable future. In assessing whether the going concern assumption is appropriate, those responsible for the preparation of financial ~~statements~~ reports take into account all available information about the future, which is at least, but is not limited to, twelve months from the approval of the financial ~~statements~~report.

...

41. The determination of whether the going concern assumption is appropriate is primarily relevant for individual entities rather than for a government as a whole. For individual entities, in assessing whether the going concern basis is appropriate, those responsible for the preparation of financial ~~statements~~ report may need to consider...

Consistency of Presentation

42. The presentation and classification of items in the financial ~~statements~~ report shall be retained from one period to the next unless:
 - (a) It is apparent, following a significant change in the nature of the entity's operations or a review of its financial ~~statements~~report, that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in PBE IPSAS 3; or
 - (b) A PBE Standard requires a change in presentation.
43. A significant acquisition or disposal, or a review of the presentation of the financial ~~statements~~reports, might suggest that the financial ~~statements~~ report ~~needs~~is to be presented differently. For example, an entity may dispose of a savings bank that represents one of its most significant controlled entities and the remaining economic entity conducts mainly administrative and policy advice services. In this case, the presentation of the financial ~~statements~~ report based on the principal activities of the economic entity as a financial institution is unlikely to be relevant for the new economic entity.
44. An entity changes the presentation of its financial ~~statements~~ report only if the changed presentation provides information that is reliable and is more relevant to users of the financial ~~statements~~report, and the revised structure is likely to continue, so that comparability is not impaired. When making such

changes in presentation, an entity reclassifies its comparative information in accordance with paragraphs 55 and 56.

Materiality and Aggregation

45. **Each material class of similar items shall be presented separately in the financial ~~statements~~report. Items of a dissimilar nature or function shall be presented separately, unless they are immaterial.**

...

- 46A. When applying this and other PBE Standards an entity shall decide, taking into consideration all relevant facts and circumstances, how it aggregates information in the financial ~~statements~~report, which includes the notes. An entity shall not reduce the understandability of its financial ~~statements~~report by obscuring material information with immaterial information or by aggregating material items that have different natures or functions.

46A.1 Materiality has an important role in guiding the selection of service performance information to be included in a financial report. This is particularly so when an entity delivers a wide range of outputs.

46A.2 When making judgements about whether items of service performance information are material, the following should be considered:

- (a) The users of financial reports and their information needs;
 - (b) How the qualitative characteristics affect presentation and disclosure (for example, service performance information must be relevant, but the overall volume of information must also be accessible in order for it to be understandable);
 - (c) How the nature and size of items of information, judged in the surrounding circumstances, affect presentation and disclosure; and
 - (d) Where financial and non-financial information that is material should be presented and disclosed.
47. Some PBE Standards specify information that is required to be included in the financial statements or elsewhere in the financial report, which includes the notes. An entity need not provide a specific disclosure required by a PBE Standard if the information resulting from that disclosure is not material. This is the case even if the PBE Standard contains a list of specific requirements or describes them as minimum requirements. An entity shall also consider whether to provide additional disclosures when compliance with the specific requirements in PBE Standards is insufficient to enable users of financial reports ~~statements~~ to understand the impact of particular transactions, other events and conditions on the entity's financial position, ~~and~~ financial performance and, where appropriate, service performance.

...

Comparative Information

53. **Except when a PBE Standard permits or requires otherwise, an entity shall present comparative information in respect of the preceding period for all amounts reported in the financial ~~statements~~report. An entity shall include comparative information for narrative and descriptive information if it is relevant to an understanding of the current period's financial ~~statements~~report.**

53A. **An entity shall present, as a minimum, one statement of financial position with comparative information for the preceding period, one statement of comprehensive revenue and expense with comparative information for the preceding period, one cash flow statement with comparative information for the preceding period, ~~and~~ one statement of changes in net assets/equity with comparative information for the preceding period and related notes. Where an entity is required to present service performance information, it shall also present comparative service performance information for the preceding period.**

54. In some cases, narrative information provided in the financial ~~statements~~report for the preceding period(s) continues to be relevant in the current period. For example, an entity discloses in the current period details of a legal dispute, the outcome of which was uncertain at the end of the preceding period and is yet to be resolved, are disclosed in the current period. Users may benefit from the disclosure of information that the uncertainty existed at the end of the preceding period and from disclosure of information about the steps that have been taken during the period to resolve the uncertainty.

55. **When the presentation or classification of items in the financial statements report is amended, comparative amounts shall be reclassified unless the reclassification is impracticable. When comparative amounts are reclassified, an entity shall disclose:**

...

Structure and Content

Introduction

59. ... PBE IPSAS 2 sets out requirements for the presentation of a cash flow statement. PBE FRS X Service Performance Reporting sets out requirements for the reporting of service performance information.
60. This Standard sometimes uses the term disclosure in a broad sense, encompassing items presented on the face of the (a) ... ~~and~~ (d) cash flow statement, and (e) within the service performance information, where this is required, as well as in the notes. Disclosures are also required by other PBE Standards. Unless specified to the contrary elsewhere in this Standard, or in another Standard, such disclosures are made either on the face of the statement of financial position, statement of comprehensive revenue and expense, statement of changes in net assets/equity or cash flow statement (whichever is relevant), within the service performance information, or in the notes.

Identification of the Financial Statements Report

61. The financial statements report shall be identified clearly, and distinguished from other information in the same published document.
62. PBE Standards apply only to financial statements, and ~~statements of~~ service performance information, and not to other information presented in an annual report or other document. ...
63. Each component of the financial statements report shall be identified clearly. In addition, the following information shall be displayed prominently, and repeated when it is necessary for a proper understanding of the information presented:
- ...
- (b) Whether the financial statements report covers the individual entity or the economic entity;
- (c) The reporting date or the period covered by the financial statements report, whichever is appropriate to that component of the financial statements report;
- ...
- (e) The level of rounding used in presenting amounts in the financial statements report.
64. The requirements in paragraph 63 are normally met by presenting page headings and abbreviated column headings on each page of the financial statements report. Judgement is required in determining the best way of presenting such information. For example, when the financial statements report is ~~are~~ presented electronically, separate pages are not always used; the above items are then presented frequently enough to ensure a proper understanding of the information included in the financial statements report.
65. Financial statements reports are often made more understandable by presenting information in thousands or millions of units of the presentation currency. This is acceptable as long as the level of rounding in presentation is disclosed and material information is not omitted.

Reporting Period

66. **Financial statements reports shall be presented at least annually. When an entity's reporting date changes and the annual financial statements report is are presented for a period longer or shorter than one year, an entity shall disclose, in addition to the period covered by the financial statements report:**
- ...
68. Normally, financial statements reports are consistently prepared covering a one-year period. However, for practical reasons, some entities prefer to report, for example, for a 52-week period. This Standard does not preclude this practice, because the resulting financial statements report is ~~are~~ unlikely to be materially different from ~~those~~ the report that would be presented for one year.

Timeliness

69. The usefulness of financial ~~statements~~ reports is impaired if they are not made available to users within a reasonable period after the reporting date. An entity should be in a position to issue its financial ~~statements~~ report within six months of the reporting date. ...

Statement of Financial Position

83. An entity ...:
- (b) An agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting date and before the financial ~~statements~~ report is ~~are~~ authorised for issue.
85. When an entity breaches an undertaking under a long-term loan agreement on or before the reporting date, with the effect that the liability becomes payable on demand, the liability is classified as current, even if the lender has agreed, after the reporting date and before the authorisation of the financial ~~statements~~ report for issue, not to demand payment as a consequence of the breach. The liability is classified as current because, at the reporting date, the entity does not have an unconditional right to defer its settlement for at least twelve months after that date.
- ...
87. In respect of loans classified as current liabilities, if the following events occur between the reporting date and the date the financial ~~statements~~ report is ~~are~~ authorised for issue, those events qualify for disclosure as non-adjusting events in accordance with PBE IPSAS 14 *Events After the Reporting Date*:
- ...

Statement of Comprehensive Revenue and Expense

...

- *116.1 An entity shall disclose fees to each auditor or reviewer, including any network firm² [footnote omitted], separately for:**
- (a) **The audit or review of the financial ~~statements~~ report; and**
- (b) **All other services performed during the reporting period.**

Service Performance Information

- 126.1 Service performance information provides users of financial reports with a basis to assess the service performance of the entity. PBE FRS X specifies which entities are required to present service performance information in accordance with that Standard and sets out requirements for the reporting of service performance information and related disclosures.

Notes*Structure*

127. **The notes shall:**
- (a) **Present information about the basis of preparation of the financial ~~statements~~ report and the specific accounting policies used, in accordance with paragraphs 132–139;**
- (b) **Disclose the information required by PBE Standards that is not presented on the face of the statement of financial position, statement of comprehensive revenue and expense, statement of changes in net assets/equity, ~~or cash flow statement,~~ or within the service performance information; and**
- (c) **Provide additional information that is not presented on the face of the statement of financial position, statement of comprehensive revenue and expense, statement of changes in net assets/equity, ~~or cash flow statement,~~ or within the service performance information, but that is relevant to an understanding of any of them.**
128. **Notes shall, as far as practicable, be presented in a systematic manner. In determining a systematic manner, the entity shall consider the effect on the understandability and comparability of its financial ~~statements~~ report. Each item on the face of the statement of financial position, statement of comprehensive revenue and expense, statement of changes in net assets/equity, ~~and~~ cash flow**

statement, and within the service performance information shall be cross-referenced to any related information in the notes.

129. Examples of systematic ordering or grouping of the notes include:
- (a) Giving prominence to the areas of its activities that the entity considers to be most relevant to an understanding of its service performance, financial performance and financial position, such as grouping together information about particular operating activities;
 - ...
131. Notes providing information about the basis of preparation of the financial ~~statements~~ report and specific accounting policies may be presented as a separate component of the financial ~~statements~~ report.

Disclosure of Accounting Policies

132. **An entity shall disclose its significant accounting policies comprising:**
- (a) **The measurement basis (or bases) used in preparing the financial ~~statements~~ report;**
 - ...
 - (c) **The other accounting policies used that are relevant to an understanding of the financial ~~statements~~ report.**
133. It is important for users to be informed of the measurement basis or bases used in the financial ~~statements~~ report (for example, historical cost, current cost, net realisable value, fair value, recoverable amount, or recoverable service amount), because the basis on which the financial ~~statements~~ report is prepared significantly affects ~~their~~ its analysis. When more than one measurement basis is used in the financial ~~statements~~ report, for example when particular classes of assets are revalued, it is sufficient to provide an indication of the categories of assets and liabilities to which each measurement basis is applied.
134. In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events, and conditions are reflected in the reported financial performance and financial position. Each entity considers the nature of its operations and the policies that the users of its financial ~~statements~~ report would expect to be disclosed for that type of entity. ...
- ...
137. **An entity shall disclose, along with its significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 140), management³ has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial ~~statements~~ report.**
- ³ In this context, management is the person/committee responsible for the financial ~~statements~~ report.
138. In the process of applying the entity's accounting policies, management makes various judgements, apart from those involving estimations, that can significantly affect the amounts recognised in the financial ~~statements~~ report. ...
- ...
144. The disclosures in paragraph 140 are presented in a manner that helps users of a financial statements report to understand the judgements management makes about the future and about other key sources of estimation uncertainty. ...

Capital

- *148A. An entity shall disclose information that enables users of its financial ~~statements~~ report to evaluate the entity's objectives, policies, and processes for managing capital.
- ...
- *148C. ... When an aggregate disclosure of capital requirements and how capital is managed would not provide useful information or distorts a financial ~~statement~~ report user's understanding of an entity's capital resources, the entity shall disclose separate information for each capital requirement to which the entity is subject.

Prospective Financial Statements and Prospective Service Performance Information

148.1 Where an entity has published general purpose prospective financial statements or general purpose prospective service performance information for the period of the financial statements report, the entity shall present a comparison of the prospective financial statements report with the historical financial statements report being reported presented. Explanations for major variances shall be given.

Other Disclosures

*149. An entity shall disclose in the notes:

- (a) The amount of dividends, or similar distributions, proposed or declared before the financial statements ~~were~~ report was authorised for issue, but not recognised as a distribution to owners during the period, and the related amount per share; and

...

*150. An entity shall disclose the following, if not disclosed elsewhere in information published with the financial statements report:

...

Statement of Service Performance

150.1-150.10 [Deleted.]

...

Effective Date

153-154. [Not used.]

154.1 A public benefit entity shall apply this Standard for annual financial statements reports covering periods beginning on or after 1 April 2015. Earlier application is permitted for not-for-profit public benefit entities as long as the full suite of PBE Standards is applied at the same time.

...

154.5 PBE FRS X Service Performance Reporting, issued in [date], amended paragraphs 1-3, 7, 7.1, 15-17, 19, 21, 24.1, 25-28, 28.2, 28.4, 29, 31-33, 35-36, 38-39, 41-45, 46A, 47, 53-55, 59-66, 68-69, 83, 85, 87, 116.1, 127-129, 131-134, 137-138, 144, 148A, 148C, 148.1, 149-150 and 154.1, amended the headings above paragraphs 15, 19, 20.1, 61 and 148.1, added paragraphs 17.1, 20.1, 24.2, 46A.1-46A.2, and 126.1 and a heading above that paragraph, and deleted paragraphs 18 and 150.1-150.10 and the related heading. An entity shall apply those amendments when it applies PBE FRS X.

Basis for Conclusions**Service Performance Reporting**

BC3. When PBE IPSAS 1 was first issued it includes included non-integral implementation guidance on service performance reporting, pending the development of a standard on service performance reporting. This guidance is based on that previously set out in *Technical Practice Aid 9 Service Performance Reporting* (New Zealand Institute of Chartered Accountants, 2007) (TPA 9). The NZASB noted that although TPA 9 was previously published in the handbook of Applicable Financial Reporting Standards it did not have authoritative support.

BC4. The NZASB issued [draft] PBE FRS X Service Performance Reporting in [date], and removed the previous non-integral implementation guidance. At that time, the NZASB also made a number of changes to PBE IPSAS 1, including changing the title of that Standard to reflect the fact that general purpose financial reports of many PBEs include both financial statements and service performance information. The NZASB agreed, as a short term measure pending activation of a new project on performance reporting, to include guidance based on TPA 9 as non-integral implementation guidance accompanying PBE IPSAS 1. In developing guidance to be incorporated in a standard, the NZASB agreed that the guidance should be appropriate for application by both public sector and not for profit (NFPs) entities.

~~TPA 9 was focused on central and local government. In giving effect to this decision, the Board agreed that the guidance should acknowledge that NFPs may be providing goods and services on behalf of others or in order to further their own objectives and that the circumstances will determine the nature of their accountability to external parties.~~

~~Appendix C~~

~~Service Performance Reporting~~

Appendix C is withdrawn.

Generic amendments to PBE Standards (as a consequence of changing the title of PBE IPSAS 1)

The title of the PBE IPSAS 1 is changed from “*Presentation of Financial Statements*” to “*Presentation of Financial Reports*” as follows.

Standard		Paragraph(s) amended
PBE IPSAS 2	<i>Cash Flow Statements</i>	Paragraph 57
PBE IPSAS 3	<i>Accounting Policies, Changes in Accounting Estimates and Errors</i>	Paragraph 2
PBE IPSAS 7	<i>Investments in Associates</i>	Paragraph 17
PBE IPSAS 10	<i>Financial Reporting in Hyperinflationary Economies</i>	Paragraph 11
PBE IPSAS 13	<i>Leases</i>	Paragraph 78
PBE IPSAS 14	<i>Events After the Reporting Date</i>	Paragraph 16
PBE IPSAS 19	<i>Provisions, Contingent Liabilities and Contingent Assets</i>	Paragraph A4
PBE IPSAS 20	<i>Related Party Disclosures</i>	Paragraph 22
PBE IPSAS 23	<i>Revenue from Non-Exchange Transactions</i>	Paragraphs 30, B9 In paragraph B9 the reference to “financial statements” is changed to “financial report”.
PBE IPSAS 25	<i>Employee Benefits</i>	Paragraphs 26, IE 6
PBE IPSAS 27	<i>Agriculture</i>	Paragraph 51
PBE IPSAS 29	<i>Financial Instruments: Recognition and Measurement</i>	Paragraph 64
PBE IPSAS 30	<i>Financial Instruments: Disclosures</i>	In paragraph IG 3 the reference to “financial statements” is changed to “financial statements or service performance information”
PBE IPSAS 32	<i>Service Concession Arrangements: Grantor</i>	Paragraph 31
PBE IFRS 4	<i>Insurance Contracts</i>	Paragraphs 34, C17.5.4
PBE IFRS 5	<i>Non-current Assets Held for Sale and Discontinued Operations</i>	Paragraphs 3, BC6

Standard		Paragraph(s) amended
PBE FRS 46	<i>First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRS</i>	Paragraph 18. In paragraphs 18 and 20 the reference to “financial statements” is changed to “financial report”.
PBE FRS 47	<i>First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRS</i>	Paragraph 28

PBE FRS 42 Prospective Financial Statements

The Introduction is amended.

New text is underlined and deleted text is struck through.

Introduction

General purpose prospective (future oriented or forward looking) financial statements and general purpose prospective service performance information are based on assumptions about the future and other information, and thus relate to events and actions which have not yet occurred. Although evidence may be available to support the assumptions on which the general purpose prospective financial statements or service performance information are based, such evidence is itself usually future oriented and therefore speculative in nature.

Given that anticipation of the future environment is associated with considerable uncertainty, the preparation of general purpose prospective financial statements and service performance information requires the exercise of significant judgement.

General purpose prospective financial statements and service performance information are less amenable to objective verification than historical data. When working with, or using, general purpose prospective statements and service performance information, it is essential to understand their inherent limitations.

Main Features of the Standard

PBE FRS 42 applies where an entity is required, or chooses, to present general purpose prospective financial information or general purpose prospective service performance information. Entities applying the Standard are required to present a complete set of general purpose prospective financial statements for the reporting period for which interim or annual historical general purpose financial statements will subsequently be presented.

The Standard requires that an entity use the best information that could reasonably be expected to be available in determining the assumptions and other information used in the preparation of general purpose prospective financial statements. ~~It also requires that~~ The prospective financial statements must be understandable, relevant, reliable and comparable and that the information in the prospective financial statements be reasonable and supportable. The Standard also requires that an entity presenting general purpose prospective service performance information present comprehensive information that is based on the assumptions and information consistent with that used to prepare any prospective financial information

The assumptions used must:

- (a) Be based on the best information that could be reasonably expected to be available to the entity at the time prospective financial statements are prepared;
- (b) Be internally consistent among themselves;
- (c) Be consistent with the current plans of the entity to the extent that this is relevant;
- (d) Be applied consistently; and
- (e) Have a reasonable and supportable basis.

The Standard requires disclosure of:

- (a) The entity's operations and activities;
- (b) The purpose for which the prospective financial statements and prospective service performance information have been prepared;
- (c) Significant assumptions;
- (d) Any changes to the entity's existing operations;
- (e) The bases on which the significant assumptions have been prepared, including the principal sources of information from which they have been derived;
- (f) The extent to which actual events and transactions have been reflected in the prospective financial statements and prospective service performance information;
- (g) The factors that may lead to a material difference between the prospective financial statements and prospective service performance information and the actual financial results and service performance reported presented in historical financial statements in future reporting periods;
- (h) The assumptions made in relation to those sources of uncertainty and the potential financial effect of the uncertainty on the prospective financial statements and the potential effect of the uncertainty on prospective service performance information;

...

Paragraphs 1, 3, 6-10, 11.1, 12-19, 21-23, 25-27, 41-56, 58-69 and 70.1 are amended.

Paragraphs 27A, 64.1 and 73.2 are added.

New text is underlined and deleted text is struck through.

1. The objective of this Standard is to establish principles and specify minimum disclosures for entities that present general purpose prospective financial statements or general purpose prospective service performance information (hereafter referred to as "prospective financial statements" and "prospective service performance information" except where otherwise stated). To provide users with high quality general purpose prospective financial information, this Standard requires that an entity presenting general purpose prospective financial information present a complete set of prospective financial statements using the best information that could reasonably be expected to be available and which meet certain qualitative characteristics. This Standard also requires that an entity presenting general purpose prospective service performance information present comprehensive information that is based on the assumptions and information consistent with that used to prepare any prospective financial information.
3. An entity shall apply this Standard where it is required, or chooses, to present general purpose prospective financial information or general purpose prospective service performance information.
6. Examples of prospective information to which this Standard does not apply include:
 - (a) Special purpose prospective financial information;
 - (b) Prospective information expressed solely in general terms; and
 - (c) Prospective non-financial information other than the prospective service performance information discussed in this Standard.

Nonetheless application of the principles and requirements of this Standard to prospective ~~financial~~ information outside the scope of this Standard is encouraged to the extent applicable.
7. Special purpose prospective ~~financial~~ information is prepared for external users who are able to require, or contract for, the preparation of special reports to meet their specific information needs. It may be prepared in a form agreed to by the parties.
8. Prospective information which is expressed solely in general terms includes qualitative statements about future prospects. Such statements are commonly found in:
 - (a) Narrative commentary within an entity's financial report; and

- (b) Commentary in statements of intent provided by government departments and Crown entities and in long-term plans provided by local authorities.

However, the above information, where presented, should be consistent with any current published prospective financial statements and prospective service performance information.

9. Prospective non-financial information includes forward-looking disclosures about an entity's objectives, activities and performance targets. Non-financial information is often provided because financial information alone is unlikely to meet all the needs of users. In the case of public sector entities, legislation may require the publication of prospective non-financial information such as objectives, nature and scope of activities and performance targets in relation to objectives, outputs or outcomes. Some non-financial information will be prospective information that falls within the scope of this Standard. Where non-financial and financial information are published together they should be consistent.
10. **A public benefit entity whose prospective financial statements, and prospective service performance information where this is provided, comply with PBE FRS 42 shall make an explicit and unreserved statement of such compliance in the notes. Prospective financial statements and prospective service performance information shall not be described as complying with PBE FRS 42 unless they comply with all the requirements of PBE FRS 42.**
- 11.1 **The following terms are used in this Standard with the meanings specified:**
- ...
- General purpose prospective service performance information means future-oriented service performance information prepared for external users who are unable to require, or contract for, the preparation of special reports to meet their specific information needs.**
12. Prospective financial statements and prospective service performance information prepared using the principle of best information that are reasonable and supportable and that meet the qualitative characteristics outlined in paragraphs 16 and 17 of this Standard are likely to be of a high quality and assist users in forming, revising or confirming their expectations about the future.
13. **An entity shall use the best information that could reasonably be expected to be available at the time prospective financial statements and prospective service performance information are prepared in determining the assumptions and information used in the preparation of the prospective financial statements and prospective service performance information.**
14. **The information in prospective financial statements and prospective service performance information shall be reasonable and supportable and faithfully represent the assumptions and information on which the financial statements and service performance information are based.**
15. ~~Prospective~~ ~~The information in prospective financial statements~~ is, by definition, uncertain and its preparation requires the exercise of judgement. Events and circumstances may not occur as expected or may not have been predicted. In addition, the entity may subsequently take actions which differ from the proposed courses of action on which the prospective information is financial statements are based. In seeking to demonstrate that ~~the prospective information in the prospective financial statements~~ is reasonable and supportable, an entity considers whether:
- (a) The course of action reflected in the prospective information ~~financial statements~~ represents the entity's proposed course of action, or, where alternative scenarios are presented, that those scenarios are feasible;
- (b) It has a reasonable and supportable basis for the determination of assumptions underlying the prospective information ~~financial statements~~. Ways in which an entity can demonstrate that it has a reasonable and supportable basis for the assumptions underlying the prospective information ~~financial statements~~ are discussed in paragraphs 20 and 21; and
- (c) It has used appropriate information.
16. **In order to meet the needs of users, prospective financial statements and prospective service performance information shall meet the qualitative characteristics outlined in the PBE Framework. Accordingly, the statements and information shall be understandable, relevant, reliable and comparable.***

* The NZASB is also consulting on a proposed new PBE Conceptual Framework. This new Conceptual Framework would have implications for references to qualitative characteristics in standards. Any proposals to amend standards for consistency with a new Conceptual Framework would be consulted on separately.

17. In giving effect to the principle in paragraph 16, for prospective financial statements and prospective service performance information to be:
- (a) **Understandable**—the information ~~in the statements~~ should be described, aggregated, classified and presented in a format and style that is able to be clearly understood by users. For prospective financial statements and service performance information to be understandable, users will need sufficient information to be able to make judgements about the assumptions employed and the risks associated with those assumptions.
 - (b) **Relevant**—the information in the statements and service performance information should be capable of assisting users to make economic or other decisions by helping them evaluate present or future events or correct their past evaluations. For prospective financial statements and service performance information to be relevant they must have predictive value and be able to be confirmed, or otherwise, in future periods.
 - (c) **Reliable**—the information in the statements and service performance information should be free from material calculation error, and unbiased. The reliability of prospective financial statements and service performance information is affected by the appropriateness of the assumptions and the sources of uncertainty. Users should be able to assess the reliability of prospective financial statements and service performance information and identify the factors that make the statements more or less reliable.
 - (d) **Comparable**—the statements should measure and display like items, transactions and events in a consistent manner. The service performance information should use consistent descriptions and performance indicators for outputs and outcomes. Prospective financial statements and service performance information should be capable of comparison with current and subsequent information about the actual ~~financial~~ performance of an entity based on consistent application of accounting policies, reporting periods and presentation.
18. **Assumptions shall be based on the best information that can reasonably be expected to be available to the entity, be consistent among themselves, be consistent with the current plans of the entity to the extent that this is relevant, and be applied consistently. An entity shall have a reasonable and supportable basis for the determination of assumptions underlying prospective financial statements and service performance information.**
19. An assumption is a view taken about the future for the purpose of preparing prospective information ~~financial statements~~. Assumptions are taken as being true for the purpose of preparing prospective information ~~financial statements~~ but could change later. An assumption is made where some facts are not yet known or decided. In preparing prospective information ~~financial statements~~ an entity generally needs to make assumptions regarding economic and business conditions and proposed courses of action. For example, an entity may assume that the nature of its operations and principal activities for the period of the prospective financial statements and prospective service performance information will be consistent with the operations and activities outlined in certain plans and strategies of the entity. Information used in the preparation of prospective information ~~financial statements~~ may include the current plans and strategies of the entity, some of which may be published, market surveys, industry statistics, economic and other indicators or specialised studies.
- ...
21. Where prospective financial statements and prospective service performance information present information on activities that have no track record and that are not subject to considerable management control and discretion, it is more difficult to establish that there is a reasonable and supportable basis for the assumptions. Ways in which an entity preparing prospective financial statements and prospective service performance information in a start-up situation can demonstrate a reasonable and supportable basis for the assumptions include:
- ...

- (c) Detailed analysis by area of activity (for example, goods and services by ~~type market, product line~~ or geography and cost by function);
22. Assumptions are frequently interdependent. An assumption may affect many items within prospective financial statements and prospective service performance information and lead to the formulation of other assumptions. Where assumptions are interdependent, the treatment of the interdependent assumptions in prospective financial statements and prospective service performance information should be consistent. For example, an entity may have a capital project that will need to be funded during the period of the prospective financial statements. As such, assumptions will be required about the source of the funding and the interest rates related to the funding. It may also be necessary to make assumptions about the related increase in depreciation charges.
23. Application of the principle of best information and the manner in which an entity demonstrates that it has a reasonable and supportable basis for assumptions will depend on the circumstances in which an entity prepares prospective financial statements and prospective service performance information. Prospective financial statements and prospective service performance information reflect an entity's assumptions regarding its proposed courses of action for the period of the prospective information financial statements. An entity may propose to continue its current operations and activities, make some changes to its current operations and activities, or engage in one or more alternative scenarios.
- (a) To the extent that an entity intends to continue its current operations and activities for the period of the prospective information financial statements, application of the best information principle requires that the assumptions and information used in the preparation of the prospective information financial statements be based on and consistent with the assumptions in the entity's current plans and strategies, updated as appropriate for more recent information forecasts of economic and business conditions.
- (b) Where the nature of an entity's operations and its principal activities are expected to change significantly over the period of the prospective information financial statements, the assumptions will need to reflect these changes. Application of the best information principle in these circumstances requires that the assumptions and information used in the preparation of the prospective information financial statements reflect the entity's proposed course(s) of action, including any alternative scenarios, and the risks and uncertainties that inevitably surround many of the events and circumstances associated with those actions or scenarios. In such circumstances the assumptions and information used in the prospective information financial statements may be consistent with those in the entity's current plans and strategies, but only to the extent that those assumptions and information are relevant to the entity's planned actions or alternative scenarios. The quality of such prospective information financial statements is enhanced if ~~it is they are~~ supported by an analysis of the entity's current operations and the way in which those operations are expected to change under the proposed course of action, including any alternative scenarios.
- ...
25. Full disclosure of significant assumptions is essential in order for users to determine the extent to which they wish to rely on the information in prospective financial statements and prospective service performance information. Users require information about the assumptions used so they can make an informed judgement on the degree of reliability of the information in the prospective financial statements and prospective service performance information. Users also require information which assists them in assessing the sensitivity of information in prospective financial statements and prospective service performance information to changes in assumptions and the extent to which they are subject to a high degree of uncertainty.

Presentation of Prospective Financial Statements and Prospective Service Performance Information

26. An entity that presents prospective financial statements and prospective service performance information shall present and disclose information that enables users of those statements and information to evaluate the entity's financial prospects and to assess actual financial results and service performance ~~prepared~~ in future reporting periods against the prospective financial statements.
27. Information presented on the face of prospective financial statements is usually presented as a line item. However, additional disclosures may be used to present information on the possible range for an individual item. When a range is used the band shall not be so broad as to render the information

meaningless to users and the assumptions used shall be clearly linked to the upper and lower limits of the range. Where prospective financial information has a high level of uncertainty associated with it, a range is more likely to present useful information. Prospective service performance information may also be presented as a range for the same reasons.

27A. An entity's prospective service performance information shall include the following:

- (a) Outputs and performance indicators for outputs;
- (b) Outcomes that the entity is seeking to influence and the links between an the entity's outputs and those outcomes;
- (c) A description of the impact that the entity has had on the outcomes that it is seeking to influence and performance indicators to support that description; and
- (d) Notes to support the service performance information.

...

41. **Prospective financial statements and prospective service performance information shall be prepared in accordance with the accounting policies expected to be used in the future for ~~reporting~~ historical general purpose financial reports statements.**
42. Where an entity presents both controlling entity and group financial statements for general purpose historical financial reporting, it should consider whether both controlling entity and group prospective financial statements and prospective service performance information should be presented. Factors to consider include the purpose and relevance of the prospective financial statements and prospective service performance information and whether, in the absence of group prospective financial statements, the statements and information ~~that are~~ presented meet the qualitative characteristics set out in paragraphs 16 and 17 of this Standard.
43. Where an entity presents prospective financial statements and prospective service performance information in respect of the reporting entity for general purpose financial reporting and/or a subset of that reporting entity:
- (a) The prospective financial statements and prospective service performance information for the reporting entity for which general purpose financial reports will subsequently be prepared shall be prepared in accordance with the accounting policies expected to be used in the future for ~~reporting~~ historical general purpose financial reports statements; and
 - (b) The prospective financial statements and prospective service performance information for the sub-entity shall be prepared in accordance with the accounting policies expected to be used in the future for ~~reporting~~ historical general purpose financial reports statements except where regulations otherwise require.

Periods Covered by Prospective Financial Reports Statements

44. **The reporting periods covered by prospective financial statements and prospective service performance information shall coincide with those for which interim or annual historical general purpose financial reports statements will subsequently be presented.**
45. Where legislation or regulation require prospective financial information or prospective service performance information to be prepared for a reporting period which differs from the period for which historical general purpose financial statements or information will subsequently be presented, an entity is compelled to comply with such legislation or regulation. However, in such cases the entity may be able to comply with both this Standard and the relevant legislation or regulation by presenting prospective ~~financial~~ information for the balance of the current reporting period and for the subsequent interim or annual reporting period. Comparative requirements in relation to prospective ~~financial~~ information presented in historical financial reports statements are found in PBE IPSAS 1 *Presentation of Financial Reports Statements* and PBE IAS 34 *Interim Financial Reporting*.
46. The number of reporting periods covered by prospective financial reports statements may vary considerably depending on the relevant legal requirements and the purpose and objective for which the prospective financial reports statements are prepared. In general, the greater the number of future reporting periods included in prospective financial reports statements, the more unreliable and uncertain

the information in the prospective financial reports statements becomes. Entities should exercise caution about publishing prospective financial statements and prospective service performance information for periods beyond that required by legislation or regulation. Entities publishing prospective financial statements and prospective service performance information, other than those required to publish prospective financial information and prospective service performance information by legislation or regulation, should exercise caution in presenting prospective financial statements and prospective service performance information for more than one reporting period.

47. **An entity shall disclose the following, if not disclosed elsewhere in information published with the prospective financial statements and prospective service performance information:**
- (a) A description of the nature of the entity's current operations and its principal activities; and
 - (b) A description of the nature of the entity's operations and its principal activities for the period of the prospective financial statements and prospective service performance information.

Disclosure of the Purpose of Prospective Financial Statements and Prospective Service Performance Information

48. **When prospective financial statements and prospective service performance information are presented, the purpose for which they have been prepared shall be disclosed together with a caution that the information ~~in those statements~~ may not be appropriate for purposes other than those described.**
49. **Prospective financial statements and prospective service performance information shall contain the information necessary for a user to appreciate the degree of uncertainty attaching to those statements and that the information in those statements and the impact of that uncertainty.**
50. The requirement that prospective financial statements and prospective service performance information contain the information necessary for a user to appreciate the degree of uncertainty attaching to ~~the information in those statements~~ and that information and the impact of that uncertainty requires the disclosure of assumptions, the risks associated with those assumptions, and other matters and information which are of importance to users' understanding of the prospective financial information statements. Disclosure of the risks surrounding assumptions and the potential impact of a change in an assumption on the prospective financial information statements enables users to assess the degree of uncertainty inherent in the ~~information in the prospective information financial statements~~ and the reliance they wish to place on ~~the that information in those statements~~. Such disclosure reduces the possibility that unwarranted credibility may be attached to the information. In forming a judgement on what constitutes reasonable disclosure, an entity will need to take into consideration:
- (a) Sources of uncertainty and the assumptions made relating to uncertainties;
 - (b) The factors that will affect whether assumptions will be borne out in practice; and
 - (c) Alternative results, being the consequences of assumptions not being borne out.
51. **All significant assumptions underlying prospective financial statements and prospective service performance information shall be disclosed separately and clearly identified in a manner that makes their significance understandable to users. Where possible, assumptions shall be quantified.**
52. A significant assumption is one that materially affects one or more financial estimates or estimates relating to outputs or outcomes. One way of highlighting the significance of assumptions is to rank assumptions in order of importance in relation to their impact on the prospective ~~information financial statements~~. For example, the most significant risks may be uncertainty regarding the level of demand for a new product, exposure to future price changes (inflation), exposure to movements in foreign currency exchange rates or interest rates, and increased demand for services caused by shifts in population growth. If the level of expected demand for the new product is the most important assumption it should be disclosed as such and the risk of demand being significantly less than assumed should be disclosed as a key risk.
53. **Where prospective financial statements and prospective service performance information are not based on the entity's existing activities, this fact shall be disclosed together with a description of the changes proposed.**

54. Where prospective financial statements and prospective service performance information reflect planned actions or alternative scenarios that do not represent the entity's existing activities, this fact shall be disclosed to enable users to understand the nature of the changes proposed and the possible future direction that the entity may take.
55. **An entity shall disclose:**
- (a) **The bases on which the significant assumptions have been prepared, including the principal sources of information from which they have been derived;**
 - (b) **The extent to which actual events and transactions have been reflected in the prospective financial statements and prospective service performance information;**
 - (c) **The factors that may lead to a material difference between information in the prospective financial statements and prospective service performance information, and the actual financial results and service performance reported prepared in future reporting periods; and**
 - (d) **The assumptions made in relation to those sources of uncertainty and the potential financial effect of the uncertainty on the prospective financial statements, and the potential effect of the uncertainty on prospective service performance information.**
56. The purpose of disclosure of the bases for the assumptions is to provide users with information to determine the extent to which they can rely on the information in the prospective financial statements and prospective service performance information. Disclosure about the bases of the preparation of the significant assumptions may include discussion of the process used to develop assumptions, including the use of documents such as plans, surveys and reports. The factors outlined in paragraph 20 and, where applicable, paragraph 21, are examples of items that could have formed the bases of assumptions.
- ...
58. Examples of factors that may lead to a material difference between prospective financial statements and prospective service performance information and actual financial results and service performance include macroeconomic exposures, political changes, market volatility, competitor action and risks associated with the entity's own processes for producing goods and services. One way in which information on the effect of such uncertainties on prospective financial statements and prospective service performance information may be presented is a sensitivity analysis. Where a sensitivity analysis using positive or optimistic variables is presented, it should generally be accompanied by a corresponding analysis based on negative or pessimistic variables.
59. **Prospective financial statements and prospective service performance information shall include a cautionary note to the effect that actual financial results and service performance achieved for the period covered are likely to vary from the information presented, and that the variations may be material.**

Disclosure of Accounting Policies

60. **Significant accounting policies used as a basis for the preparation of prospective financial statements and prospective service performance information shall be disclosed in accordance with PBE IPSAS 1 *Presentation of Financial Reports Statements*.**
61. **Where prospective financial statements or prospective service performance information give effect to a change in accounting policy, this change shall be disclosed, including the reason for the change and its effect on the prospective financial statements or prospective service performance information.**
62. The changes in accounting policies referred to in paragraph 61 include changes from the accounting policies used in the prior period historical general purpose financial ~~reports statements~~ and changes from the accounting policies used in prior period prospective financial statements where prospective financial statements are presented for more than one year.
63. **Where an entity publishes both controlling entity and group financial statements for historical financial reporting purposes but does not publish group prospective financial statements, it shall disclose the reasons for not presenting group prospective financial statements. Similarly, where an entity publishes both historic controlling entity and group service performance information but**

does not publish group prospective service performance information, it shall disclose the reasons for not presenting group prospective service performance information.

64. Where an entity publishes prospective financial statements in respect of a subset of a reporting entity in accordance with paragraph 43 it shall disclose:
- (a) The reasons for presenting prospective financial statements for the subset; and
 - (b) Whether the entity intends to publish historical financial statements for the subset of the reporting entity for the period or periods covered by the prospective financial statements.

64.1 Where an entity publishes prospective service performance information in respect of a subset of a reporting entity in accordance with paragraph 43 it shall disclose:

- (a) The reasons for presenting prospective service performance information for the subset; and**
- (b) Whether the entity intends to publish historical service performance information for the subset of the reporting entity for the period or periods covered by the prospective service performance information.**

Other Disclosures

65. When an entity presents prospective financial statements and prospective service performance information, it shall disclose:
- (a) The date when the prospective financial statements and prospective service performance information were authorised for issue and who authorised the issue of the prospective financial statements and prospective service performance information;
 - (b) A statement that the person or body that authorised the issue of the prospective financial statements and prospective service performance information by the entity is responsible for the prospective financial statements and prospective service performance information presented, including the appropriateness of the assumptions underlying the prospective financial statements and prospective service performance information and all other required disclosures;
 - (c) The extent to which actual financial results and service performance are incorporated and the period covered by those results; and
 - (d) Whether or not it is intended to update the prospective financial statements and prospective service performance information subsequent to presentation and, if so, when.
66. The process involved in authorising the prospective financial statements and prospective service performance information for issue will vary depending upon the management structure, statutory requirements and procedures followed in preparing and finalising the prospective financial statements and prospective service performance information. It is important for users to know when the prospective financial statements and prospective service performance information were authorised for issue because this is the date of adoption of the underlying assumptions. The prospective financial statements and prospective service performance information do not reflect events or knowledge obtained after this date.
67. The authorising body is responsible for ensuring that the entity has a robust process for developing assumptions and that the assumptions developed are appropriate in the circumstances. The responsibility of the authorising body extends beyond ensuring that individual assumptions used to prepare the prospective financial statements and prospective service performance information are appropriate in the circumstances, to ensuring that the assumptions taken as a whole are appropriate and that there is adequate disclosure of all significant risks.
68. Disclosure of the date of adoption of the underlying assumptions alerts users to the possibility that events occurring subsequent to this date may affect the usefulness of the information presented. Disclosure of the extent to which actual financial results and service performance are incorporated and the period covered by those results provides an indication of the degree of reliability that can be attached to the information in the prospective financial statements and prospective service performance information. Further disclosure of whether or not it is intended to update the prospective financial statements and prospective service performance information subsequent to presentation may alert the user to the extent of the intention to communicate such updated information.

Disclosure of Reasons for Revising Prospective Financial Statements and Prospective Service Performance Information

69. Where revised prospective financial statements and prospective service performance information are issued, the following shall be disclosed:

- (a) The reasons for revising the prospective financial statements and prospective service performance information;
- (b) An explanation of the changes made to the prospective financial statements and prospective service performance information most recently issued, including a reconciliation of material differences between the previously reported prospective financial statements and prospective service performance information and the revised prospective financial statements and prospective service performance information; and
- (c) The date as at which the prospective financial statements and prospective service performance information were revised.

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70.1 PBE IPSAS 1 specifies requirements for comparisons of actual financial information results and actual service performance information to prospective financial statements and prospective service performance information.

Effective Date

...

73.2 PBE FRS X *Service Performance Reporting*, issued in [date], amended paragraphs 1, 3, 6-10, 11.1, 12-19, 21-23, 25-27, 41-56, 58-69 and 70.1 and added paragraphs 27A and 64.1. An entity shall apply those amendments when it applies PBE FRS X.

Paragraph BC5 is added.

Service Performance Reporting

BC5. PBE FRS X *Service Performance Reporting*, issued in [Date], created requirements for public benefit entities to report service performance information. At that time the NZASB amended a number of other standards, including PBE FRS 42 *Prospective Financial Statements*. The amendments to PBE FRS 42 broaden the application of the Standard to prospective service performance information. The NZASB decided not to mandate the presentation of service performance information in conjunction with all prospective financial statements on the grounds that there may be some situations in which it is appropriate for an entity to present prospective financial statements without also presenting prospective service performance information.

PBE FRS 43 Summary Financial Statements

Paragraphs 9, 11A, 12 and 16 are amended. Paragraph 45 is added.

New text is underlined and deleted text is struck through.

9. Summary financial statements shall include a summary of each financial statement included in a full financial report. If the full financial report included service performance information, summary financial statements shall be accompanied by a summary of that service performance information. ~~If the full financial report is required to include non-financial statements such as a statement of service performance, the summary financial statements shall be accompanied by a summary of the non-financial statements required to be included in the full financial report.~~

Application of Materiality

11A. An entity shall disclose sufficient information in its summary financial statements and summary service performance information to enable a reader to obtain a broad understanding of the financial position and performance, and service performance, of the entity in a manner that is neither misleading nor biased.

Consistency with Full Financial Statements

12. The information in the summary financial statements and summary service performance information shall be drawn from and be consistent with information presented in the full financial statements and service performance information for the relevant periods. Where information in the full financial statements or full service performance information for periods included in the summary financial statements or full service performance information has subsequently been restated or reclassified, the information in the summary financial statements or summary service performance information shall be drawn from, and be consistent with, that restated or reclassified information. No further restatement or reclassification is permitted.
16. If the entity presenting the summary financial statements and summary service performance information is an economic entity a group, the summary financial statements shall be presented for the economic entity group. Controlling entity financial information is not required.

Effective Date

...

- 45 PBE FRS X *Service Performance Reporting*, issued in [date], amended paragraphs 9, 11A, 12 and 16. An entity shall apply those amendments when it applies PBE FRS X.

Paragraphs BC2 and BC3 are added.

Service Performance Reporting

BC2. PBE FRS X *Service Performance Reporting*, issued in [Date], created requirements for public benefit entities to report service performance information. At that time the NZASB made some minor amendments to PBE FRS 43 *Summary Financial Statements* to refer to both summary financial statements and summary service performance information. The NZASB considered making more extensive amendments to PBE FRS 43 such as changing the title of the standard to “Summary Financial Reports” and specifying the service performance information that must be presented together with summary financial statements. The NZASB decided not to make more extensive changes on the grounds that:

- (a) PBE FRS 43 already contemplated the presentation of summary service performance information together with summary financial statements;
- (b) Paragraph 11A regarding the application of materiality addressed the key matters to be considered in selecting service performance information for inclusion in a summary; and
- (b) Many public benefit entities were already familiar with the requirements of PBE FRS 43 and were aware that it contained requirements on service performance reporting.

BC3. The NZASB agreed that if the full financial report included service performance information, summary financial statements should be accompanied by a summary of that service performance information. This was on the grounds that the summary should be a complete summary of the financial report. This differed from the NZASB’s views on interim financial reporting where the NZASB acknowledged that there may be circumstances in which it is appropriate for an entity to produce interim financial statements but not necessarily interim service performance information.

PBE IAS 34 Interim Financial Reporting

The Objective and paragraphs 4, 16A, 19, RDR 19.1, 23-25 are amended.

Paragraphs 8A.1, 9.1-9.3, 21.1 and 49.2 are added.

Headings are added above paragraph 9.1 and 21.1.

New text is underlined and deleted text is struck through.

Objective

The objective of this Standard is to prescribe the minimum content of an interim financial report and to prescribe the principles for recognition and measurement in complete or condensed financial statements and the requirements for presentation of service performance information for an interim period. Timely and reliable interim financial reporting improves the ability of investors, creditors, and others to understand an entity's capacity to generate earnings and cash flows and its financial condition and liquidity. Timely and reliable interim service performance information improves the ability of resource providers and service recipients to make decisions about funding and assess accountability for use of resources on an ongoing basis.

4. **The following terms are used in this Standard with the meanings specified:**

...

Interim financial report means a financial report containing either a complete set of financial statements (as described in PBE IPSAS 1 *Presentation of Financial Reports*~~Statements~~) **and service performance information** (as described in PBE FRS X *Service Performance Reporting* or a set of condensed financial statements **and condensed service performance information** (as described in this Standard) for an interim period.

Minimum Components of an Interim Financial Report

8. **An interim financial report shall include, at a minimum, the following components:**

- (a) **A condensed statement of financial position;**
- (b) **A condensed statement of comprehensive revenue and expense, presented as either:**
 - (i) **A condensed single statement; or**
 - (ii) **A condensed separate statement of financial performance and a condensed statement of other comprehensive revenue and expense;**
- (c) **A condensed statement of changes in net assets/equity;**
- (d) **A condensed cash flow statement;**
- (e) **When the entity makes publicly available its approved budget for an interim period, a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the financial statements; and**
- (f) **Selected explanatory notes.**

8A. **If an entity presents items of surplus or deficit in a separate statement as described in paragraph 22.1(b) of PBE IPSAS 1, it presents interim condensed information from that statement.**

8A.1 **An interim financial report may, but is not required to, include condensed service performance information.**

Form and Content of Interim Service Performance Information

9.1 **If an entity publishes a complete set of service performance information in its interim financial report, the form and content of that information shall conform to the requirements of PBE FRS X *Service Performance Reporting*.**

9.2 **If an entity publishes condensed service performance information in its interim financial report, that information shall be presented in a manner consistent with the service performance**

information in the most recent annual financial report, or an explanation of the differences shall be provided.

- 9.3 Although the presentation of condensed service performance information will often involve the selection of a subset of outputs, outcomes and impacts, the descriptions of outputs, outcomes and impacts and any performance indicators included in condensed service performance information should be as consistent as possible with the descriptions and performance indicators in the annual financial report. Differences may occur due to changes in outputs or an entity's decision to change the way in which it collects and reports information. This Standard requires disclosure of any differences.

Other Disclosures

- 16A. **In addition to disclosing significant events and transactions in accordance with paragraphs 15–15C, an entity shall include the following information, as a minimum, in the notes to its interim financial statements or service performance information, if material and if not disclosed elsewhere in the interim financial report. The information shall normally be reported on a financial year-to-date basis.**
- (a) **A statement that the same accounting policies and methods of computation are followed in the interim financial statements and, where relevant, service performance information, as compared with the most recent annual financial statements or service performance information, or, if those policies or methods have been changed, a description of the nature and effect of the change.**

Compliance

- *19. **If an entity's interim financial report is in compliance with PBE IAS 34, that fact shall be disclosed. An interim financial report shall not be described as complying with PBE Standards as they apply to Tier 1 entities unless the financial statements and the service performance information, if included, in that report comply with all of the requirements of Tier 1 PBE Standards.**

RDR 19.1 If an entity's interim financial report is in compliance with this Standard as it applies to Tier 2 entities, that fact shall be disclosed. An interim financial report shall not be described as complying with PBE Standards as they apply to Tier 2 entities unless the financial statements and the service performance information, if included, in that report comply with all of the requirements of Tier 2 PBE Standards.

Periods for which Interim Service Performance Information May be Presented

21.1 Interim reports that include interim service performance information shall include service performance information (condensed or complete) for the current interim period and cumulatively for the current financial year to date, with comparative information for the comparable interim periods (current and year-to-date) of the immediately preceding financial year.

Materiality

23. **In deciding how to recognise, measure, classify, or disclose an item for interim financial reporting purposes, materiality shall be assessed in relation to the interim period ~~financial~~ data. In making assessments of materiality, it shall be recognised that interim measurements may rely on estimates to a greater extent than measurements of annual ~~financial~~ data.**
24. PBE IPSAS 1 and PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* define an item as material if its omission or misstatement could influence the ~~economic~~ decisions or assessments of users of the financial statements or service performance information. PBE IPSAS 1 requires separate disclosure of material items, including (for example) discontinued operations, and PBE IPSAS 3 requires disclosure of changes in accounting estimates, errors and changes in accounting policies. The two Standards do not contain quantified guidance as to materiality.
25. While judgement is always required in assessing materiality, this Standard bases the recognition and disclosure decision on data for the interim period by itself for reasons of understandability of the interim figures. Thus, for example, unusual items, changes in accounting policies or estimates, and errors are recognised and disclosed on the basis of materiality in relation to interim period data to avoid misleading inferences that might result from non-disclosure. The overriding goal is to ensure that an interim financial report includes all information that is relevant to understanding an entity's financial position and performance, and where relevant, its service performance, during the interim period.

Effective Date

...

49.2 PBE FRS X *Service Performance Reporting*, issued in [date], amended the Objective, paragraphs 4, 16A, 19, RDR 19.1, 23–25 and added paragraphs 8A.1, 9.1–9.3 and 21.1 (and added headings above paragraphs 9.1 and 21.1). An entity shall apply those amendments when it applies PBE FRS X.

Paragraph BC8 is added.

Service Performance Reporting

BC8. PBE FRS X *Service Performance Reporting*, issued in [Date], created requirements for public benefit entities to report service performance information. At that time the NZASB amended PBE IAS 34 *Interim Financial Reporting* to refer to both interim financial statements and interim service performance information. The NZASB left the decision as to whether to include service performance information in an interim financial report at the discretion of the entity. In doing so the NZASB's acknowledged that there may be circumstances in which an entity is required to produce interim financial statements, and the users of that interim information may be interested solely in financial information.

XRB A1 *Application of the Accounting Standards Framework*

Appendix C is amended.

APPENDIX C**ACCOUNTING STANDARDS AND OTHER PRONOUNCEMENTS TO BE APPLIED BY TIER 1 AND TIER 2 PUBLIC BENEFIT ENTITIES**

...

This appendix lists the PBE Standards and Authoritative Notices to be applied by Tier 1 and Tier 2 public sector public benefit entities and not-for-profit public benefit entities.

Standards

...

PBE FRS 47 *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRS*

PBE FRS X *Service Performance Reporting*

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, [draft] PBE FRS X Service Performance Reporting.

Introduction

- BC1. This Basis for Conclusions summarises the NZASB’s considerations in developing ED NZASB 2016-6 *Service Performance Reporting*. Individual Board members gave greater weight to some factors than to others.
- BC2. When the NZASB first issued PBE Standards in 2013 it included non-integral guidance on service performance reporting in PBE IPSAS 1 *Presentation of Financial Statements*. This non-integral guidance was based on Technical Practice Aid 9 *Service Performance Reporting* (as issued by the New Zealand Institute of Chartered Accountants in 2007) and was originally developed for application by public sector entities only. The material from TPA-9 was updated to take account of developments in service performance reporting since it was first issued and modified to be appropriate for application by both public sector and not-for-profit public benefit entities. However, the NZASB considered that the development of a financial reporting standard which establishes principles and requirements for the reporting of general purpose service performance information was a priority.

Considerations in Developing the [draft] Standard

- BC3. The NZASB focused on developing a high level, principles-based standard. This was because the characteristics of public benefit entities vary. They provide a wide range of goods and services, have users with differing interests, and in the case of public sector entities, are subject to varying legislative requirements.
- BC4. The NZASB noted that, by definition, public benefit entities have a primary objective of providing goods and services for community or social benefit. It concluded that, in order to meet the objective of general purpose financial reporting, the general purpose financial reports of public benefit entities should include financial statements and service performance information. The NZASB noted that it had already established service performance reporting requirements in the not-for-profit Tier 3 and Tier 4 Simple Format Reporting Standards because it considered that service performance information was an essential component of those reports.
- BC5. In developing the [draft] Standard the NZASB shared views with the Australian Accounting Standards Board (AASB) which was also developing requirements for service performance reporting. The AASB issued ED 270 *Reporting Service Performance Information* in August 2015. Although jurisdictional differences meant that the projects of the two Boards were conducted as separate projects, the Boards had an objective of using similar principles to guide the development of requirements.
- BC6. The NZASB also considered the extent to which the International Public Sector Accounting Standards Board’s Recommended Practice Guideline 3 *Reporting of Service Performance Information* (RPG 3) was appropriate for public benefit entities in New Zealand. There is a high level of consistency between the IPSASB’s RPG and the proposals in this ED. Key differences between the IPSASB’s RPG 3 and the NZASB’s proposals are discussed separately below.

Scope

- BC7. The *New Zealand Accounting Standards Framework* was developed using a “user-needs” approach. It is based on a multi-standards approach that uses tiers of reporting to match costs and benefits. Generally the NZASB develops requirements that apply to all public benefit entities within a tier on the basis that the costs and benefits of certain requirements are similar for all the entities within a tier. However, in the case of service performance reporting, the NZASB considers that the costs and benefits of having to comply with a standard on service performance reporting could differ between various categories of public benefit entities.
- BC8. Although there has been guidance on service performance reporting for some time (for example, TPA-9 *Service Performance Reporting* was first issued in 2002 and subsequently reissued in 2007), there have been very limited requirements in relation to reporting general purpose service performance information, and those requirements have not applied to all public benefit entities. The NZASB noted that, in the absence of a standard on service performance reporting, specific legislative requirements for different

types of public sector entities have been created, and some public sector entities do not have any such requirement. The NZASB therefore considered the costs and benefits of its proposals for both public sector public benefit entities with, and without, existing legislative requirements.

- BC9. A number of public sector public benefit entities have existing legislative requirements to report ex ante and ex post service performance information or performance information. Although there have been recent changes to some of these requirements, large groups of public sector public benefit entities such as government departments, crown entities and local governments, have been subject to some form of performance reporting requirement for a number of years. Entities with existing legislative requirements to report service performance information will already have much of the information that is required by the ED. They may still encounter some difficulties where the legislative requirements are expressed differently, or differ from those proposed in the ED. To help reduce any potential difficulties for these entities, the NZASB has deliberately developed a high-level principles-based proposals and has taken into account some of the thinking underlying recent legislative changes for such entities. For example, the NZASB noted that some changes were designed to reduce duplication of information in various reports and is therefore proposing to allow some cross-referencing to information provided in other reports.
- BC10. Other public sector public benefit entities do not have legislative requirements to prepare the type of service performance information envisaged by this ED. For example:
- (a) the Government as a whole is not required by legislation to report on its service performance;
 - (b) there are a number of exceptions to the legislative requirements, including exceptions for wholly-owned controlled entities, small entities and entities whose primary purpose is to distribute grants; and
 - (c) schools have legislative non-financial reporting requirements, but they differ from the proposals in this ED.
- BC11. In considering the potential costs and benefits of its proposals for public benefit entities without legislative requirements to report service performance information, the NZASB noted the following:
- (a) From a legislative perspective, for these particular entities, there has already been an assessment that the costs of requiring service performance information would be greater than the benefits or that such reporting would be inappropriate.
 - (b) The costs of imposing new reporting requirements on such entities would be expected to be much higher than for those public sector public benefit entities with existing legislative requirements to report service performance information.
 - (c) Some entities (for example, schools) that do not have a legislative requirement to report service performance information nonetheless have a legislative requirement to report non-financial information that is complementary to the financial statements. In these circumstances imposing a different set of requirements would impose additional costs, but would not necessarily provide additional benefits commensurate with those costs.
 - (d) The NZASB is aware that, for some of these entities, public sector officials and entities are working on various initiatives to improve such entities' performance reporting. In the absence of a standard on service performance reporting, these projects have progressed independently. Imposing new and different requirements on such public sector public benefit entities could conflict with some of the work that is underway.
- BC12. Taking all of these matters into consideration, the NZASB is proposing that entities without legislative service performance reporting requirements not be required to comply with the proposals in the ED. Nonetheless the NZASB has agreed to encourage application of the proposals in the ED by all public benefit entities and to liaise with those working to improve the service performance reporting of such entities.
- BC13. The NZASB noted that, in contrast to the public sector, there were no potential conflicts with existing or planned legislation in the not-for-profit sector. It also noted that many not-for-profit public benefit entities already report on their service performance in their general purpose financial reports and that some will also be required to provide more detailed service performance information directly to groups of users, such as funders. The NZASB is of the view that the general purpose financial report of a not-for-profit entity should tell a story about what a not-for-profit entity does, the resources used in doing it, and

how well positioned the entity is to continue doing it. Service performance reporting is an essential component in telling that story. The NZASB acknowledges that its proposals could lead to increased costs for not-for-profit entities as its proposals are unlikely to align perfectly with their current reporting. In order to avoid imposing unnecessary costs the NZASB has deliberately opted for a high-level principles-based approach which provides sufficient flexibility for entities to “tell their story” in a way that is meaningful for them and their users, and which avoids some of the difficulties that can arise with a more prescriptive approach. On balance, the NZASB considers that the benefits of improved and more comparable service performance reporting across the not-for-profit sector will outweigh the costs of reporting in accordance with the [draft] Standard.

- BC14. The proposals are not intended to replace the detailed one-on-one reporting that occurs between not-for-profit entities and funders. However, the proposals will provide an opportunity for funders to consider the extent to which the proposed general purpose service performance information could meet their needs.
- BC15. The scope of the [draft] Standard is limited to service performance information about goods and services provided by an entity with the aim of influencing outcomes. The NZASB acknowledged that public benefit entities may include other types of non-financial information such as environmental information and sustainability information in an annual report, but considered that such reporting was broader than service performance reporting.
- BC16. The focus on general purpose financial reports also means that the [draft] Standard does not apply to service performance information prepared for groups of entities that are not a reporting entity for financial reporting purposes or for parts of an entity. Nor does it apply to service performance information presented in another context such as a standalone report. The NZASB considered that establishing requirements for such varied forms of reporting would not only be difficult but would be outside its mandate.

Principles

- BC17. The NZASB noted that the objectives of financial reporting and the qualitative characteristics of financial reporting set out in the IPSASB’s *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (Conceptual Framework) which, at the time of writing, was being considered for adoption in New Zealand, apply to both financial statements and service performance information in general purpose financial reports. The [draft] Standard is therefore built around the concept that service performance information should be useful for accountability and decision-making purposes. The [draft] Standard requires that service performance information satisfy, to the extent possible, the qualitative characteristics and appropriately balances the pervasive constraints on information in general purpose financial reports. It explains that this should result in service performance information that is appropriate and meaningful.
- BC18. The NZASB chose to introduce the term “appropriate and meaningful” because it wanted to provide a general term that could be applied when making judgements about the application of the qualitative characteristics and constraints. The NZASB considered that a general term such as this could facilitate discussions between preparers, and between preparers and auditors regarding the appropriate selection of information and the overall volume of information presented.

Reporting Entity and Reporting Period

- BC19. The [draft] Standard requires that the entity for which service performance information is reported be the same as the reporting entity for which the financial statements are presented and that the reporting period be the same as that for which the financial statements are presented. This is consistent with the NZASB’s view that financial statements and service performance information are both essential components of a general purpose financial report. The [draft] Standard also acknowledges that there may be circumstances in which an entity working together with another entity decides that the best way to report on certain outputs is to report on the collective outputs and to explain its contribution. The NZASB considered that this acknowledgement was essential to reflect the way in which public benefit entities work. The NZASB considered whether the reporting of collective activities was inconsistent with the reporting entity requirements in the [draft] Standard, but concluded that as long as the entity’s contribution to collective activities was identified, the service performance reporting still related to the reporting entity. Similarly, the NZASB considered that a reconciliation of expenses reported in the financial statements and the

service performance information would assist users in understanding the extent of the entity's involvement in collective outputs.

Information to be Reported

BC20. The NZASB considered various approaches to developing a standard that could be applied by a wide range of public benefit entities, while acknowledging that they vary in the way they assess their service performance and the extent to which they can influence outcomes. The NZASB concluded that the [draft] Standard should require information on outputs, the outcomes that an entity is seeking to influence the impact that an entity has had on those outcomes. However, the NZASB acknowledged that some entities will be able to provide more information than others, and that some may be unable to provide impact information that satisfies all the requirements in the [draft] Standard and that meets the qualitative characteristics and constraints. In such cases the [draft] Standard permits an entity to state this fact. The NZASB decided that this approach establishes what it regards as best practice, while acknowledging the difficulties for some entities of obtaining such information.

Comparative Information

BC21. The [draft] Standard requires comparisons of actual service performance against the previous period, but not against its service performance objectives, unless these have been previously published. Although the NZASB considered that, in demonstrating accountability, the most meaningful comparison of an entity's service performance is whether it achieved what it set out to achieve, it did not require this comparison in all cases. Although most public sector entities are required to publicly report on planned activities and objectives, not-for-profit public benefit entities do not generally have such requirements. The NZASB concluded that it was not appropriate to impose such requirements on not-for-profit public benefit entities. Instead, the NZASB amended PBE IPSAS 1 to require comparisons of prospective financial information and prospective service performance information when such information has been previously published.

BC22. The NZASB decided not to establish requirements to benchmark service performance against sector standards or other entities. However, the NZASB considered that the [draft] Standard provides sufficient flexibility for an entity to report information on service performance against benchmarks where it considers that this is appropriate and meaningful.

Reduced Disclosure Regime Concessions

BC23. There are no reduced disclosure regime concessions in the [draft] Standard. Because the [draft] Standard establishes high-level requirements, the NZASB did not consider that it was appropriate to provide any reduced disclosure regime concessions.

Presentation Terminology

BC24. The NZASB noted that the IPSASB's Conceptual Framework uses the terms presentation, display and disclosure in discussing presentation issues. At the time of writing, the IPSASB's Conceptual Framework was being considered for adoption in New Zealand. For the purpose of developing this [draft] Standard the NZASB decided to use the term presentation to cover all types of presentation decisions. The NZASB acknowledged that entities will need to decide which information should be presented most prominently in a service performance report and which information should be regarded as supporting information. However, the NZASB did not consider that it was necessary for this [draft] Standard to mandate the type of information that would fall into each category.

BC25. The NZASB noted that, where consistency in the format of service performance reports for similar types of public benefit entities was desirable, it might be appropriate for the NZASB or for other agencies to produce implementation guidance that is consistent with the principles of this [draft] Standard.

Amendments to PBE IPSAS 1

BC26. Consistent with its view that service performance information is an integral component of a general purpose financial report, the NZASB decided to change the title of PBE IPSAS 1 *Presentation of Financial Statements* to *Presentation of Financial Reports* and to amend PBE IPSAS 1 to refer to both financial and service performance information where appropriate. The NZASB noted that this was a significant change to PBE IPSAS 1, but considered that it was consistent with the [proposed] PBE Conceptual Framework and would make it easier for entities preparing service performance information

to understand how PBE IPSAS 1 applies to service performance information. The NZASB also noted that this approach would allow for an audit opinion on the entire general purpose financial report.

BC27. The NZASB considered an alternative approach whereby it would make minimal changes to PBE IPSAS 1 as a result of issuing a standard on service performance reporting. This would have left open the possibility of making further changes to PBE IPSAS 1 at a later stage. The NZASB was of the view that this approach would not have been as clear regarding how PBE IPSAS 1 applies to service performance information.

Comparison with IPSASB's RPG 3

BC28. The key differences between the proposals in this [draft] Standard and the IPSASB's RPG 3 include:

- (a) RPG 3 is non-mandatory guidance. It does not have the authority of a Standard;
- (b) The [draft] Standard does not define the term service performance objective and it includes less discussion of service performance objectives than RPG 3. The [draft] Standard acknowledges that an entity will have service performance objectives but it does not mandate the reporting of objectives unless an entity has published prospective service performance information for the same period. In that case it requires a comparison of the prospective and actual information. This difference acknowledges that, unlike public sector entities, not-for-profit entities are not generally required to publish their detailed objectives.
- (c) The [draft] Standard does not define the terms efficiency and effectiveness and it includes less discussion of these terms than RPG 3. The NZASB was of the view that the reporting of service performance information in accordance with this [draft] Standard, including consideration of the qualitative characteristics of information, is likely to result in information that is useful in assessing an entity's efficiency and effectiveness. However, the NZASB did not consider that it was necessary to define these terms.
- (d) The [draft] Standard requires that the reporting period be the same as that for which the financial statements are presented. RPG 3 states that in some cases the reporting period for service performance information may be different from that covered by the entity's financial statements.
- (e) The [draft] Standard does not prescribe the format of service performance reporting. RPG 3 discusses the application of the IPSASB's presentation concepts in *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* to service performance information.
- (f) The [draft] Standard would not require that the Government of New Zealand report service performance information in accordance with the [draft] Standard. Although, as non-mandatory guidance, RPG 3 would not impose requirements on an entity, it was written with the intention that it could be applied at a whole-of-government level.