

July 2016

NZ Accounting Standards Board (NZASB)
External Reporting Board
PO Box 11250
Manners Street Central
Wellington 6142

By email: submissions@xrb.govt.nz

Dear NZASB

Exposure Draft NZASB 2016-6 – Service Performance Reporting

The Institute of Directors (IoD) appreciates the opportunity to provide comment on the exposure draft of the PBE Standard on service performance reporting ([ED NZASB 2016-6](#)). The new standard will apply to Tier 1 and Tier 2 public benefit entities (PBEs) in the public and not-for-profit sectors.

The primary objective of public benefit entities is to provide goods or services for community or social benefit. It is therefore important for PBEs to monitor and report on both financial and non-financial performance. This is particularly important for decision-making and accountability purposes.

The IoD supports the introduction of a reporting standard to provide PBEs with a framework for service performance reporting. Financial information alone doesn't tell the whole story and accurate, timely and meaningful non-financial information is essential for good governance. It helps enable the board to monitor performance, hold management to account and make more effective decisions.

Introducing a new performance reporting regime will mean significant change for many PBEs and it is important that sufficient time and support is provided to enable an effective transition.

About the Institute of Directors

The IoD is a non-partisan voluntary member organisation committed to raising governance standards in New Zealand. We represent a diverse membership of about 7,500 members drawn from NZX-listed corporations, unlisted companies, private companies, small to medium enterprises, public sector organisations, not-for-profits and charities. Our chartered membership pathway aims to raise the bar for director professionalism in New Zealand, including through continuing professional development to support good corporate governance.

General comments

A robust service reporting framework underpins good management and governance in PBEs. Financial and non-financial performance information is critical for accountability purposes and should also reflect good practices, including:

- defining purpose and clearly setting out strategy and key priorities
- linking strategy to operational plans
- reporting on the delivery of services and operations
- evaluating the effect of services and operations

A particular challenge for PBEs can be balancing short term objectives with long term outcomes. For example making a difference to environmental outcomes may require an intergenerational approach such as ensuring we have adequate and safe water for the future.

Our comments on the new standard focus on:

- the proposed scope and application of the standard
- time and capability required for effective implementation
- the need to take into account any future audit requirements

We also comment on the specific questions in the *Invitation to Comment* on the ED in the attached table.

Proposed scope of the new standard

In our response to question 7 in the attached table we query the proposed scope of the new standard. It is not clear to us why public sector PBEs that don't have existing legislative requirements to report service performance information will only be *encouraged* to comply when non-public sector not-for-profit PBEs will be *required* to comply.

Both of these categories do not have current legislative requirements and it seems inconsistent to require a higher expectation (required vs encouraged) for non-public sector entities

Time and capability for effective implementation

It is essential that capability in PBEs is developed so that the new reporting regime is implemented effectively.

There are existing legislative requirements for many public sector entities to report non-financial information and to have that information audited. It is widely accepted that it has taken a long time to lift the quality of non-financial performance reporting in the New Zealand public sector:

- There have been statutory requirements for over 25 years for a range of public entities to report on their non-financial performance. Most of the requirements were introduced during the late 1980s and refined in the early 2000s.
- Following changes in 2004 to the Public Finance Act 1989 and the enactment of the Crown Entities Act 2004 and the Local Government Act 2002 the Auditor-General placed more emphasis on the appropriateness of performance reporting when auditing public entities' work.
- In 2008 the Auditor-General reported to Parliament highlighting the 'poor quality of non-financial performance reporting'.

Financial reporting is underpinned by professional qualifications and training, but there isn't such well-established capability in respect of non-financial reporting.

Introducing the new service performance reporting regime will mean significant change for many PBEs, particularly in the not-for-profit sector where this will be a new requirement. Sufficient time and support is needed to raise awareness of the new regime and to build the internal capability of those who manage organisational performance and prepare performance reports.

Boards and others charged with responsibility for governance will also need to deepen their understanding of the new reporting regime to enable them to fulfil their responsibilities effectively.

There needs to be sufficient time and support for PBEs so that they can transition to the new reporting regime effectively. (Also see response to Question 7).

We urge the XRB to consider a phased approach (e.g. over 3 to 5 years) to implementing the new regime and to support the educational needs of PBE report preparers to enable the effective implementation of the new service performance reporting regime.

Auditing service performance information

We understand that the NZAuASB will introduce a new auditing standard for auditing/reviewing service performance reporting and we would like to make an advance comment in respect of this.

The implementation period for the new service performance reporting regime needs to be considered in light of the planned timeframe for introducing any associated audit or review requirements.

The Auditor-General implemented a phased approach to the auditing of service performance of public sector entities. This proved essential as it took many public sector entities a long time to embed internal systems and capability to be able to reporting meaningful and appropriate service performance information.

Having a phased approach for this new reporting regime will be particularly important if the reports are required to be audited – especially as the process of auditing will expose deficiencies in internal information and control systems. In addition auditors will also need sufficient time to develop their capability to audit non-financial information.

Conclusion

Performance reporting on financial and non-financial information is important for effective decision-making and accountability purposes. The IoD supports the XRB ensuring reporting standards are fit for purpose in New Zealand

The introduction of service reporting requirements will mean significant change for many PBEs, particularly those outside the public sector. We support a longer and phased implementation period which includes clear guidance and educational support for PBE entities.

The IoD appreciates the opportunity to make a submission on behalf of its members and we would be happy to discuss this submission.

Yours sincerely



Simon Arcus
Chief Executive
Institute of Directors in New Zealand

Answers to specific NZASB questions

Question	IoD comment
<p>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?</p>	<p>Yes. We agree that the following three dimensions of service performance are a useful and appropriate framework for PBEs to report service performance information:</p> <ol style="list-style-type: none"> 1. what the entity does (outputs) 2. why it does it (the outcomes it is seeking to influence) 3. what impact it had – e.g. the difference it made <p>However it is important that:</p> <ul style="list-style-type: none"> • the framework is not too prescriptive and enables the provision of useful and relevant information for management and governance purposes and that it doesn't become overly compliance focused • there is an appropriate balance between accountability for annual performance and working towards longer term outcomes
<p>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.</p>	<p>Yes. The qualitative characteristics of relevance, faithful representation, understandability, timeliness, comparability and verifiability, help provide context and meaning so that reported information is useful and reliable.</p>
<p>3. Do you agree with the use of the term "appropriate and meaningful"? If not, please explain why not and identify any alternative proposals.</p>	<p>Yes. We support PBEs reporting information that is appropriate and meaningful to the entity.</p> <p>This is important for the board to be able to effectively monitor performance and hold management to account. Performance information must be relevant to the business needs and nature of the entity's operations. Requirements need to be flexible to ensure they are meaningful rather than prescriptive.</p>
<p>4. Do you agree with the proposed information to be reported? If not, please explain why not and identify any alternative proposals.</p>	<p>Yes. Service performance information should be provided for the same reporting entity and period as the financial statements. Additional information may be provided where it provides context for reported performance or progress towards longer term objectives.</p>

	<p>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.</p> <p>However some entities may not be able to provide information on impacts that satisfy the qualitative characteristics and the standard needs to allow for this.</p>
<p>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?</p>	<p>Yes. We support the cross referencing to other information.</p> <p>This is particularly important in an increasingly digital environment where stakeholders and consumers expect easy and timely access to further relevant information. It should also help enable annual reports to focus on key performance information and help avoid overly long reports.</p>
<p>6. Do you agree with the proposed scope in relation to:</p> <p>(a) public sector public benefit entities with existing legislative requirements to report service performance information;</p> <p>(b) public sector public benefit entities currently without existing legislative requirements to report service performance information; and</p> <p>(c) not-for-profit public benefit entities?</p> <p>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.</p>	<p>NZASB proposes that:</p> <ul style="list-style-type: none"> (a) public sector PBEs with existing legislative requirements to report service performance information would be required to comply with the new standard (b) public sector PBEs without existing legislative requirements to report service performance information would be encouraged but not required to comply with the new standard (c) not-for-profit PBEs would be required to comply with the new standard <p>It is not clear to us why public sector PBEs that don't have existing legislative requirements to report service performance information (b) will only be <i>encouraged</i> to comply when non-public sector not-for-profit PBEs (c) will be <i>required</i> to comply.</p> <p>Both of these categories do not have current legislative requirements and it seems inconsistent to require a higher expectation (required vs encouraged) for non-public sector entities.</p>
<p>7. Do you agree that a two year implementation period would be appropriate?</p>	<p>No. Introducing the new performance reporting regime will mean significant change for many PBEs, particularly in the not-for-profit sector where this will be a new requirement.</p> <ul style="list-style-type: none"> • Sufficient time is needed to raise awareness of the new regime and to build the internal

	<p>capability of those who manage organisational performance and prepare performance reports.</p> <ul style="list-style-type: none"> • Boards and others charged with responsibility for governance will also need to deepen their understanding of the new reporting regime to enable them to fulfil their responsibilities effectively. • The timeframe for implementing any associated audit/review requirements also needs to be considered and allow for auditor capability building where needed. • We suggest consideration of a phased implementation period over 3 to 5 years. • There also needs to be more clarity about transitional provisions.
<p>8. Do you agree with the proposal to change the title of PBE IPSAS 1 Presentation of Financial Statement to Presentation of Financial Reports and the proposed amendments to that Standard? If not, please explain why not and indicate your preferred alternative approach.</p>	<p>No. The proposed word change from <i>financial statement</i> to <i>financial report</i> does not reflect that ‘non-financial’ service performance information is also being reported.</p> <p>Alternatives such as <i>Presentation of Performance Reports</i> or <i>Presentation of Financial and Non-Financial Performance Reports</i>, would reflect the wider reporting requirements.</p>
<p>9. What type of guidance should the NZASB develop to support entities preparing service performance information in accordance with the proposed standard?</p>	<p>It is critical that guidance is developed for PBEs well in advance of the implementation of the new standard. Guidance should not be prescriptive but should provide flexibility to allow reporting that is most relevant to the entity. Examples of reporting, including samples of what good reporting looks like, would be useful.</p> <p>Training and education is also vital. Preparers of performance reports usually have professional financial qualifications and experience but there is not the same established professional capability in non-financial reporting.</p>
<p>10. Do you have any other comments on ED NZASB 2016-6?</p>	<p>See general comments above.</p>