



CHARTERED ACCOUNTANTS
AUSTRALIA + NEW ZEALAND

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Warren Allen FCA
Chief Executive
External Reporting Board
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By email: submissions@xrb.govt.nz

Dear Warren

Submission on Exposure Draft 2016-6: Service Performance Reporting

We welcome the opportunity to provide feedback on the Exposure Draft (ED). We recognise the increasing prevalence of, and demand for, service performance reporting and support the collaborative efforts to establish a framework for such reporting in New Zealand.

We are particularly supportive of the high-level principles-based approach taken to further develop the quality and quantum of service performance reporting. We consider this approach will best balance the wide variety of user's needs with the cost of recording and presenting service performance information and will help to ensure that service performance reporting is appropriate to the complexity, size and nature of the entity.

We note the Australian Accounting Standards Board (AASB) is also working on an accounting standard for reporting service performance information and has been working closely with the New Zealand Accounting Standards Board in developing the respective EDs. We encourage trans-Tasman harmonisation, where appropriate, in finalising the requirements of these standards.

Our submission has regard to the different legislative frameworks that apply to public benefit entity (PBE) reporting in each country, such as the long standing requirement for New Zealand public sector entities to report service performance information arising from the Public Finance Act and the recent amendments to the Charities and the Financial Reporting Acts, which introduced requirements for smaller not-for-profit (NFP) entities to report service performance information. As such, we are broadly supportive of the proposed scope of the standard, however we would like to see this offset by measures to streamline NFP performance reporting to funding agencies to remove any potential duplication and to ensure that the compliance cost of these requirements does not exceed the benefits.

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Appendix A provides responses to the specific questions raised in the Invitation to Comment (ITC). Appendix B provides information about Chartered Accountants Australia and New Zealand. If you have any questions regarding this submission, please contact Ceri-Ann Ross (Acting Reporting Leader) via email; ceri-ann.ross@charteredaccountantsanz.com.

Yours sincerely

Rob Ward FCA AM

Head of Leadership and Advocacy

Appendix A: Responses to specific questions

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?

While we agree that the dimensions of service performance in the ED are a useful way of identifying the information to be reported, we consider that entities (and their professional advisors) may become burdened with complying with the specific terminology outlined in paragraph 33 of the ED (ie of outputs and performance indicators, outcomes and a description of the impact) and may potentially lose sight of the objective of 'telling their performance story'.

It may be preferable to include the three dimensions of service performance in paragraph 10 of the ED ("what did the entity do?", "why did the entity do it?", and "what impact did the entity have?") as a requirement of the standard and to include the terminology currently outlined in para 33 as explanatory guidance rather than a black letter requirement. The three dimensions of service performance are readily understandable and we consider that service performance information prepared using these as a basis will generate information that meets the accountability and decision making needs of users.

We would suggest replacing "what impact did the entity have?" with "how did the entity know it has had an impact?" We consider this change would help to articulate the need for preparers to use an evidence base to demonstrate their impact. This in turn should improve the auditability of performance information.

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.

We consider that application of the qualitative characteristics and appropriate balancing of the pervasive constraints on information will result in appropriate and meaningful service performance information, however we have two specific points to make in this regard:

- In order to help the proposed standard 'stand-alone' it would be useful to refer readers to the description of each qualitative characteristic from the PBE Conceptual Framework, or to provide the detailed descriptions within an appendix to the standard itself;
- It would also be useful to reinforce the need to 'trade-off' qualitative characteristics (ie adding in the following phrase from paragraph 3.4 of the PBE Conceptual Framework; '*in practice, all qualitative characteristics may not be fully achieved, and a balance or trade-off between certain of them may be necessary*'). Reinforcement of the ability to trade-off qualitative characteristics will assist PBE's and their auditors in determining whether information should be included and the degree to which the information needs to be verifiable.

3. Do you agree with the use of the term “appropriate and meaningful”? If not, please explain why not and identify any alternative proposals.

We agree with the use of the term ‘appropriate and meaningful’. However, we also recommend including the word ‘balanced’ to explicitly remind non-accountants that the information should include negative, as well as positive, service performance information.

4. Do you agree with the proposed information to be reported? If not, please explain why not and identify any alternative proposals.

As noted in our response to Question 1 above, we agree with the proposed dimensions of service performance however we consider that the proposed information to be reported on in paragraph 33 of the ED (ie of outputs and performance indicators, outcomes and a description of the impact) may unnecessarily burden preparers and create a ‘compliance’ framework rather than focussing preparers attention on ‘telling their performance story’.

Should the NZASB decide it is necessary to retain the specific requirements we have the following comments:

- We support the concession in paragraph 44 stipulating entities should report information on impacts **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. We consider this will assist in ensuring the costs to entities in complying with the requirements of the ED are balanced with the useful of the information reported.
- We also support the concession to require an entity to report actual service performance against its planned service performance **only where** planned service performance information has been published. We consider this is a pragmatic approach which is likely to result in entities reporting useful service performance information, without creating burdensome compliance costs. We are aware that some NFPs set ‘stretch’ targets and may be reluctant to report on whether they have achieved these more ambitious targets.
- We consider it would be useful to include definitions of some of the key terms used such as ‘impacts’, ‘objectives’ and possibly ‘intermediate outcomes’ to ensure a consistent interpretation across PBEs.

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?

We consider that permitting cross referencing to information outside the service performance section of the general purpose financial report is an appropriate and pragmatic approach.

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.

We consider that the proposed standard has the potential to effectively balance the cost of preparing service performance information with the broader benefits this reporting will bring, particularly in terms of discharging obligations for accountability and transparency and providing useful information to users. As such, we are broadly supportive of the suggested scope of the proposed standard.

We note that many New Zealand public sector PBEs have been required to report service performance information since 1989 and, as such, the proposals do not introduce any new requirements in this respect. Given the usefulness of service performance information for users, we consider all public sector PBEs should be encouraged to report service performance information.

Tier 3 and 4 NFP PBEs have been required to include service performance information in their financial reporting from periods beginning 1 April 2015. It is reasonable that the accounting standard requirements for Tier 1 and Tier 2 NFP PBEs be no less than for those in lower tiers. However, we would like to see any increase in scope offset by measures to streamline NFP performance reporting to funding agencies to remove any potential duplication and to ensure that the compliance cost of these requirements does not exceed the benefits.

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

We agree that a two year implementation period would be appropriate. Given Tier 3 and 4 NFPs adopted service performance reporting for periods beginning 1 April 2015, a two year adoption period will allow time for larger NFP entities to learn from the experiences of smaller NFP PBE entities in preparing this information.

As the proposed standard will not introduce new requirements for public sector PBEs we consider the implementation period is not an issue for this sector.

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.

In our view changing the title of PBE IPSAS 1 to *Presentation of Financial Reports* does little to alert readers to the fact that these reports will now contain both financial and non-financial information. We consider a title such as *Presentation of Performance Reports* would better reflect that these reports now contain service performance information. This would also align the terminology with that of tier 3 and 4 PBEs.

9. What type of guidance should the NZASB develop to support entities preparing service performance information in accordance with the proposed standard?

This will be a new concept for many entities. Experience gained from the tier 3 and 4 PBE implementation shows that many entities found it quite challenging in relation to what service performance information to present and how best to present it. Therefore illustrative examples would be well received.

10. Do you have any other comments on ED NZASB 2016-6?

Trans-Tasman harmonisation

As noted above, the AASB is also working on a standard for reporting service performance information and has been working closely with the NZASB in developing the respective EDs. We encourage trans-Tasman harmonisation where appropriate (ie taking into account legislative differences) in the finalisation of the requirements contained in these standards.

Development of assurance standards

We welcome development of both an auditing standard and a review standard dedicated to audits and reviews of service performance information and understand that the NZAuASB has been working closely with the NZASB in the development of these draft standards. While experience with the introduction of audit requirements for public sector service performance information suggests that there will be initial difficulty in adopting these standards, experience also suggests that this is countered with an increase in quality of the resulting service performance information and systems and controls.

Role of professional bodies in 'rolling out' these requirements

As a professional body we look forward to promoting the ensuing standards with our members and working closely with the XRB to develop tools, resources and other educational material to help our members develop service performance information which will add value to readers of the financial statements.

Appendix B: About Us

Chartered Accountants Australia and New Zealand is a professional body comprised of over 115,000 diverse, talented and financially astute members who utilise their skills every day to make a difference for businesses the world over.

Members are known for their professional integrity, principled judgment, financial discipline and a forward-looking approach to business which contributes to the prosperity of our nations. We focus on the education and lifelong learning of our members, and engage in advocacy and thought leadership in areas of public interest that impact the economy and domestic and international capital markets.

We are a member of the International Federation of Accountants, and are connected globally through the 800,000-strong Global Accounting Alliance and Chartered Accountants Worldwide which brings together leading Institutes in Australia, England and Wales, Ireland, New Zealand, Scotland and South Africa to support and promote over 320,000 Chartered Accountants in more than 180 countries.