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Dear Warren,

Exposure Draft NZASB 2016-6: Service Performance Reporting

Thank you for the opportunity to comment on the Exposure Draft NZASB 2016-6 Service Performance Reporting (the ED) for application to Tier 1 and Tier 2 public benefit entities.

Overall, we are supportive of the New Zealand Accounting Standard Board (NZASB)'s proposed requirements on service performance reporting in the ED.

In the pages that follow, we firstly articulate our concerns regarding some of the terminologies used in the ED, and secondly provide answers to the specific questions asked in the ED. Please note that our comments focus specifically on Tier 1 and Tier 2 Not-for-Profit (NFP) Public Benefit Entities (PBEs), rather than public sector PBEs.

The views expressed in this submission are our own personal views and do not necessarily reflect the views of Auckland University of Technology, or one of the author's membership on the New Zealand Auditing and Assurance Standards Board.

Should you wish to discuss any matter below, please do not hesitate to contact either one of us.

Yours sincerely,



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ED NZASB 2016-6 Service Performance Reporting

Response to Questions

Submitters: Cherrie Yang and Rowena Sinclair

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General Comments:

The ED is a timely piece of work for Tier 1 and Tier 2 NFP PBEs. In order to improve the quality of the proposed standard, as well as answering the specific questions, we firstly analyse the inconsistent and at times unclear use of terminology in the ED.

Terminologies used in the Exposure Draft

The ED includes some unclear terminologies, including (a) impacts, (b) outcomes, (c) achievements, and (d) performance indicators. These terminologies could provide difficulties for the NFP PBEs in understanding what the required information is. To avoid such confusion, terminologies need to be:

- 1) defined very clearly in the *ED paragraph 24 (Definitions)*; and
- 2) able to be distinguished from each other.

The following provides some examples of the possible confusion caused by inconsistent use of terminologies in the ED. To provide support where relevant we have used appropriate extant NFP research.

(a) Impacts

The term ‘**impacts**’ is used as a key reporting requirement in the ED, as evident in several places for example, *paragraphs 2, 10 (c), 13, 16, 18, 19, 20, 33(c), 42, 43(c), 44, 45, 63*. However, the definition for such an important term is not provided. It is interesting to note that ‘**impacts**’ are used to define ‘**outcomes**’ in *paragraph 24*. While outcomes and impacts have commonalities in meanings, they cannot be used interchangeably as impacts focus on the long term, with deeper changes that have resulted from service delivery of NFP PBEs. In order to understand the impacts of a NFP PBE, the causal relationships between the inputs, processes, outputs, and outcomes must be provided.

(b) Outcomes

As identified in *paragraph 24* of the ED, the term ‘**outcomes**’ is defined as “*the impacts on society or segments of society as a result of the entity’s outputs and operations*”. This definition is abstract and does not demonstrate the benefits or changes that have occurred as a result of a program. It is crucial to provide a context for NFP PBEs in relating to their own services. Thus, we recommend that the NZASB consider the definition of outcomes in the NFP academic literature, as outlined in the following:

Outcomes are benefits or changes for beneficiaries “*during or after their involvement with a program*” (Hatry, Houten, Plantz, & Taylor, 1996, p. 2), which focus on any changes in the knowledge, attitudes, values, skills, behaviours, condition, or status of the beneficiaries (Plantz, Greenway, & Hendricks, 1997).

This definition was used in Yang (2015)’s PhD thesis that investigated New Zealand charities’ performance measurement and reporting practices, and the extent to which such practices meet the information needs of key stakeholders, including regulators and funders. As a key non-financial performance information, outcome information is important in discharging charity accountability. The definition helps to distinguish information on outcomes from other types of performance information required by the key stakeholders, and is disclosed by charities in New Zealand.

We believe using the term outcomes to explain *paragraph 10(b)* “*why did the entity do it?*” is inappropriate. The reason a NFP PBE exists or is established is more likely due to its unique values-driven motive or intention that arises from religious, social or ecological purposes, which is presented in the form of its mission and objectives (Kreander, Beattie, & McPhail, 2009). The term ‘**mission**’ represents the general intentions of NFPs, as it links the “*presumably deeply held promises and the conduct of those representing the non-profit*” (Lawry, 1995, p. 14). On the other hand, the term ‘**objectives**’ is “*the more specific intentions of the period concerned*” (Dhanani, 2009, p. 186). Apart from the specific and time-bound criteria, the objectives also need to be measurable, achievable and realistic (Connolly & Hyndman, 2013). Hence, the terms mission and objectives are more appropriate to explain the question ‘*why did the entity do it?*’

While it has been 20 years since the first publication of a performance framework in the United Way of America’s manual (Hatry et al., 1996), it discussed extensively whether NFPs use resources efficiently and effectively to deliver services to their beneficiaries (service recipients). The terms ‘**efficiency**’ and ‘**effectiveness**’ are mentioned in the ED (e.g. *paragraph 51*) but not defined. However, there is a lack of a Service Performance Framework to guide the assessment of NFPs’ efficiency and effectiveness, as well as the disclosure of service performance information.

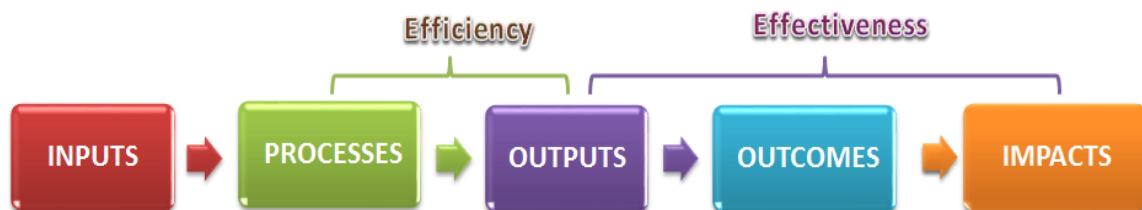


Figure 1: Service Performance Framework – adapted from Hatry, Houten, Plantz and Taylor (1996)

As demonstrated in Figure 1 above, efficiency highlights a relationship between processes and outputs, indicating the amount of input per unit of output (Connolly & Hyndman, 2004). Efficiency also aims to reduce cost, time or effort to maintain the same level of service (Sargeant, Jay, & Lee, 2006). Effectiveness considers whether the units of outputs produced are the right outputs (Schmaedick, 1993), and assesses the degree to which the missions and objectives are being met (Connolly & Hyndman, 2004). Hence, we suggest the Service Performance Reporting comprises:

- first, the information on what a NFP PBE is trying to achieve – its mission and objectives; and

- second, the information on what it has achieved in terms of outputs, outcomes and impacts identified in Figure 1.

We also suggest the NZASB replaces the terms ‘intermediate outcomes’ identified in *paragraphs 11, 42, and 43 (b)* with ‘outcomes’, and ‘ultimate outcomes’ mentioned in *paragraphs 11 and 42* with ‘impacts’. This ensures the consistency of terminologies and avoids introducing new terms.

(c) Achievements

Moreover, the ED also uses the term ‘**achievements**’, as evident in *paragraphs 32, 46 and 60*. Again what are considered as achievements of NFPs? Do achievements mean outputs, outcomes, impacts? A combination of all, or any of them? Similar to the earlier comments, a clear definition needs to be provided.

(d) Performance indicators

The term ‘**performance indicators**’ is defined in *paragraph 24* and is explained respectively in *paragraph 36* for outputs, and *paragraph 43* for outcomes. Also *paragraphs 45-51* provide contextualize meanings of performance indicators in detail. However, the confusing term “*measurement of performance indicators*” is outlined in *paragraph 62(d)*. The performance indicators are measures of performance. It is thus inappropriate to use the word ‘measurement’ repetitively in this case.

As indicated in *paragraph 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’.

We agree with the above argument regarding the external focused role of performance indicators. However, we could not see how the external focus can be separable from the internal activities, processes, plans and policies. The key role of performance indicators is to quantify the efficiency and effectiveness of NFPs’ service delivery methods (Fine & Snyder, 1999), and to ensure NFPs are accountable for the use of public money (Osborne, Bovaird, Martin, Tricker, & Waterston, 1995).

Also we suggest the NZASB uses the terms ‘output measures’, ‘outcome measures’ and/or ‘outcome descriptions’ to be key performance indicators. These are the common terms used in the NFP literature and also they closely relate to the service performance NFP PBEs need to measure and disclose, as identified in Figure 1.

The “*quantitative measures*”, as indicated in *paragraph 46(a)*, are recommended to be changed to ‘output measures’ that measure the outputs of a NFP PBE. Connolly and Hyndman (2013) identified that output measures are the most important information type sought by funders, and the ratio of outputs to inputs, or the amount of input per unit of output (such as cost per child fed), is used to measure the efficiency of charities. Hence, while output measures quantify the outputs produced to service recipients external to NFP PBEs, they still focus on the internal activities or processes.

The “*qualitative measures*” and “*qualitative descriptions*”, as identified in *paragraphs 46(b) and 46(c)*, are recommended to be changed as ‘outcome measures’ and ‘outcome descriptions’. Sowa, Selden and Sandfort (2004) suggest that outcome measures are important to assess the

effectiveness of NFPs' performance. The capacity of an NFP is measured by its internal ability to enact a specific task to implement institutional expectations or to change existing practices (Barman & MacIndoe, 2012). As such, outcome measures and descriptions investigate the structure and process within the NFPs and how the organizations operate.

Therefore, we argue that performance indicators should have both external and internal focus. It is inappropriate to only focus on one aspect.

Specific ED questions:

ED NZASB 2016-6: Dimensions of service performance

Q1: 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?

NO: We do not agree with using the term “dimensions” of service performance as consider “framework” would better reflect the need for PBEs to develop a framework based on their mission and objectives (refer earlier Terminology (b)). A Service Performance Framework will act as the structure and foundation to support the measurement and disclosure of an organisation’s mission and objectives, outputs, outcomes, and impacts. Also it is important for NFP PBEs to understand the difference between efficiency and effectiveness of their service performance, so that they can provide appropriate service performance reporting.

ED NZASB 2016-6: Qualitative characteristics & Balance of constraints

Q2: 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.

YES: It is appropriate to ensure that the PBE’s Conceptual Framework issued by the NZASB (2016, May) should be used as the basis for the qualitative characteristics and balance of constraints. These should be consistent across all four tiers, not just Tier 1 and Tier 2.

ED NZASB 2016-6: Use of term “appropriate and meaningful”

Q3: Do you agree with the use of the term “appropriate and meaningful”? If not, please explain why not and identify any alternative proposals.

NO: Bringing in an additional term “appropriate and meaningful” that is not in common use and not defined in the *ED’s Definition paragraph 24* will lead to confusion. It is interesting that in the *Invitation to Comment (ITC) paragraph 14* an explanation is given as to what is “appropriate”, but no explanation is provided for meaningful. If “appropriate” is kept its meaning must be included in the *Definition paragraph 24*.

Given that many (if not most) of the Tier 1 and Tier 2 NFP PBEs could have some form of assurance it is perhaps useful to look at the auditing terms “appropriate and sufficient”. These terms are clearly defined within the context of auditing in International Standard on Auditing (New Zealand) 500 Audit Evidence, for example:

Paragraph 5 (b) “*Appropriateness (of audit evidence) – The measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor’s opinion is based.*”

Whilst this is not relevant for this standard it can provide the basis for a definition of “appropriate” that ensures the information provided by organisations on their respective service performance framework has some form of basis that auditors will be able to audit.

ED NZASB 2016-6: Proposed information

Q4: Do you agree with the proposed information to be reported? If not, please explain why not and identify any alternative proposals.

NO: As per our earlier section on the confusion of terminologies we consider that:

- *Paragraph 10(a)*: an explanation of causal relationships between the inputs, processes, outputs needed to be provided in terms of “*What did the entity do?*”
- *Paragraph 10(b)*: the terms of mission and objectives are incorporated into the ED in terms of “*Why did the entity do it?*”
- *Paragraph 10(c)*: both outcomes and impacts are incorporated into the ED in terms of “*What impact did the entity have?*”
- *Paragraphs 19 and 42*: replace “intermediate outcomes” and “ultimate outcomes” with “outcomes” and “impacts”;
- *Paragraph 24*: This should include all key terms e.g. “appropriate”, “meaningful”, “mission”, “objectives”, “achievements”, “efficiency”, “effectiveness”, including separate definitions for “outcome” and “impact” that do not overlap.
- *Paragraph 46(a)*: “Quantitative” measures are replaced by “output” measures;
- *Paragraphs 46(b) and 46(c)*: “Qualitative” measures/descriptions are replaced by “outcome” measures/descriptions.

ED NZASB 2016-6: Cross referencing of information

Q5: 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?

YES: It is appropriate that where information is included outside of the service performance section (although still within the general purpose financial report) that this is cross referenced. This is preferable to duplicating this information within the service performance section.

ED NZASB 2016-6: Scope

Q6: 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.

NO: It would be more appropriate to have consistency between all Tier 1 and Tier 2 PBEs. Furthermore, as per paragraph 21 of the ITC it is concerning that new requirements for public sector PBE could conflict with this proposed standard as this would mean inconsistent approaches between public sector PBEs.

ED NZASB 2016-6: Effective date

Q7: Do you agree that a two-year implementation period would be appropriate?

YES: Two-years at a minimum will allow those PBE NFPs who have never reported service performance information to develop their service performance framework.

ED NZASB 2016-6: Proposed Amendments to PBE IPSAS 1

Q8: 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.

YES: As the change in PBE IPSAS 1 to “financial reports” will be consistent with the PBE Conceptual framework’s use of General Purpose Financial Reports, rather than General Purpose Financial Statements.

ED NZASB 2016-6: Guidance

Q9: What type of guidance should the NZASB develop to support entities preparing service performance information in accordance with the proposed standard?

The guidance should be tailored for different users e.g. the preparers of the service performance information as well as those charged with governance. The NZASB may like to include the questions ‘to whom’ and ‘for what means’ in the guidance to support NFP PBEs. For example, to whom an NFP PBE is accountable and who relies on the service performance information? The users may include funders, service recipients, potential donors and volunteers, which are further discussed in the following question (question 10). Similarly, a consideration of what forms the account should take place, and decision-making should be based on what may be appropriate. Moreover, it is important for the NZASB to provide guidance on various types of performance indicators, such as output measures and outcome measures/descriptions that NFP PBEs could choose. Also, guidance is needed regarding appropriate narrative reporting and some exemplars would be helpful to improve the appropriateness of comparative information for narratives.

ED NZASB 2016-6: Users and Comparative information

Q10: Do you have any other comments on ED NZASB 2016-6?

We have two further comments on the ED. Firstly, on the users of service performance information (*paragraphs 2 and 4*), and secondly on the use of comparative information (*paragraph 57*).

a) Research on ‘users’ of service performance information

As identified in *paragraph 4* of the ED, ‘there are two general categories of users of service performance information, being funders and service recipients’. Also *paragraph 2* indicates that these users ‘rely on those reports for information that is useful for accountability and decision making’.

Since the ED is drafted for Tier 1 and Tier 2 PBEs including NFPs, these organizations are more likely to receive significant funds from their government and philanthropic funders considering their sizes. Specific mechanisms may be already included in the funding contract or requirements to enforce the provision of service performance information. Connolly, Hyndman and McConville (2013, p. 65) found that large funders have more power to require

specific information, such as service performance information, tailored to their needs directly from NFPs, including charities:

Large funders, such as charitable trusts and government agencies, often require charities that are seeking resources to make a detailed application outlining such things as how the money will be spent and what is likely to be achieved. In addition, over the period of the funding, they may require funded charities to provide periodic reports on progress in terms of planned achievements and actual spend to date (monitoring reports).

Therefore, if the funders' information needs are met by their own enforcement mechanisms, Service Performance Reporting may serve as a compliance reporting that meets the needs of regulators, e.g. Charities Services and External Reporting Board, or potential donors and volunteers in making donating decisions. We agree that making the NFPs' service performance information publicly available on the Charities Register will promote public trust and confidence in the charity sector, and indicate charities in New Zealand are accountable and transparent. However, the extent to which funders rely on the service performance information provided in the form of Service Performance Reporting is questionable. Specifically, whether the service performance information is useful for funders to make funding decisions and assess the accountability of NFPs requires discussion with these users.

Service recipients, the other targeted users of service performance information, are generally referred to as beneficiaries. The academic literature supports that beneficiaries are an important group of stakeholders to NFP PBEs. For example, Connolly, Hyndman and McMahon (2009) highlighted that it is important to understand the information needs of beneficiaries, and their information needs are perceived to be similar to funders' information needs. However, various problems of engaging the beneficiaries were also identified including: an unwillingness for charities to forward questionnaires to some beneficiaries given their perceived vulnerable status, limited formal contact between charities and beneficiaries, and limited willingness of beneficiaries to participate in the research (Connolly & Hyndman, 2013). In the absence of beneficiaries' voices, funders were identified by Connolly, Hyndman and McMahon (2009, p. 8) as often attempting to take a beneficiary-focused view:

Some funders, whilst acknowledging their own specific information needs, recognized the needs of beneficiaries, saw them as being related to their own information needs, and reflected on the view that they saw their role as championing beneficiaries' interests.

While regulators and funders may act on behalf of the beneficiaries, assuming that the beneficiaries' information needs align with their own, there is a lack of research on the extent to which the reporting of service performance information is valued by this group of stakeholders. In a New Zealand context, Yang (2015) identified that the actual services received by the two interviewed beneficiaries seem to be valued higher than the disclosed service performance information. While the voices of beneficiaries were not the focus of this research, there is a need to explore further to what extent beneficiaries (service recipients) rely on the service performance information provided in the Service Performance Reporting. Also, whether the information needs of beneficiaries are similar to the funders' information needs in New

Zealand require further investigation, as these two groups of stakeholders have different accountability requirements.

b) Comparative information for narratives

Paragraph 57 identifies that ‘an entity shall report comparative information for the previous period...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.’

We agree with the idea that the narrative information is useful to disclose the service performance information of NFPs, as this is identified in the academic literature. For example, narrative disclosures regarding NFPs’ performance play a critical role in discharging accountability to their stakeholders in the United Kingdom (Connolly & Dhanani, 2009). Specifically, storytelling, as a mechanism to disclose narrative information, is used to engage both internal and external stakeholders in the United States (Chen, 2013; Merchant, Ford, & Sargeant, 2010). In a New Zealand context, Yang (2015) found that storytelling is incorporated into formal mechanisms of annual reports and websites, to disclose performance information of the charities, rather than being used as a separate mechanism.

However, we are concerned about the feasibility of requiring comparative information for narratives. Yang (2015) identified that storytelling requires considerable time and effort to establish a trust relationship with beneficiaries, and one case study charity in this research was reluctant to share the stories of its beneficiaries. This relates to the earlier point that NFP PBEs provide services to beneficiaries who are external to the organizations, thus performance reporting should have an external focus. Given the problems of time constraints and the difficulties in capturing the beneficiaries’ life-changing stories, it is more difficult to disclose this narrative information in a comparative manner. Accordingly, the NZASB may like to provide guidance on narrative reporting, and exemplars of appropriate comparative information for narratives, as identified in question 9.

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