

29 July 2016

Warren Allen
External Reporting Board
P O Box 11250
Manners St Central
Wellington 6142

Dear Warren

Exposure Draft NZASB 2016-6: Service Performance Reporting

Thank you for the opportunity to submit comments on Exposure Draft (ED) NZASB 2016-6: Service Performance Reporting.

As independent Crown entities the Commerce Commission and Electricity Authority are subject to legislative requirements around performance reporting under the Crown Entities Act 2004 (amended 2013). We welcome the efforts by the External Reporting Board (XRB) to put in place a practical and useful standard to increase the quality of performance reporting.

We think this will be particularly useful for those entities that are at the beginning of their performance measurement journey, for example public benefit agencies without existing legislative requirements. For those entities with existing legislative requirements, such as the Commission and the Authority, XRB needs to take care that the proposed Standard does not conflict with the intent and requirements of this legislation.

In particular, the Crown Entities Act was amended in 2013 to support more meaningful performance reporting by providing more flexibility for entities to choose the most appropriate method of reporting on performance for their work. We have utilised these changes to improve the way we report on our performance so that it is more meaningful for our staff and stakeholders. The proposed standard, particularly around paragraph 33 of the ED, would restrict our ability to do this and we urge XRB to consider removing the requirement to report on the three elements of outputs, impacts and outcomes.

Further details of our views on this and proposed alternatives are shown in the attached response to each of the ten questions outlined in the Invitation for Comment. For more information on the views of the Commission and the Authority, please contact Susan McMillan, Adviser Performance, Commerce Commission (susan.mcmillan@comcom.govt.nz, 04 924 3690) or Torsten Baker, Business Planning Manager, Electricity Authority (torsten.baker@ea.govt.nz, 04 460 8859).

We have also seen, and support, the submission provided by The Treasury.

Yours sincerely



Geoff Williamson
General Manager Organisation Performance
Commerce Commission



Androula Dometakis
General Manager Corporate Services
Electricity Authority

Encl. Attachment A: Responses to the questions in the Invitation to Comment

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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?*

We do not think that the three dimensions of service performance in the ED are a useful way of identifying the information to be reported by public benefit entities. The primary reason for this is the different nature of entities performance and the many situations in which it would not be appropriate for these three dimensions to be reported on, as noted in the ED itself. This could be either through entities not having enough evidence of the dimensions or attribution to outcomes or because these dimensions are not the best way to provide a useful story of the entity, eg, it may be more usefully told through the entities objectives or priorities for the year.

This is apparent in the reforms to the Crown Entities Act in 2013 which loosened the requirements to provide information on “specific impacts, outcomes or objectives” while still requiring information on “What is intended to be achieved” and “How performance will be assessed”. This allows a high-level, broader interpretation of the information to be reported on while still ensuring that information on what the entity is aiming to do is provided as well as details of how this will be assessed.

Some organisations might find explanation and examples of the terms outcome, impact and output useful as part of guidance. However, they should not be required terminology in the Standard.

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.*

Yes, these are examples of good practice in performance reporting and are useful in this context.

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

Yes, this will be useful for entities when assessing whether they have an appropriate coverage and volume of performance information, without being too restrictive.

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

No, we do not agree with the proposed information to be reported as we feel this is too restrictive. The answer to question one largely applies here as well. In addition, we are concerned that the use of the language of outputs, impact and outcomes will lead to more discussion and debate in house and with auditors around what the terms mean rather than focusing on the key aspects of performance that are important to include.

We think XRB would be better focusing on the high level principles that performance information should cover rather than try to determine specific terms to be used.

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 disagree that service performance information should be required to be reported within the 'general purpose financial report'. If non-financial performance information is to be included with financial information, then the title of the report should be changed to reflect this, eg, annual report, performance report etc. Performance information is made up of financial and non-financial dimensions. Non-financial performance information is not a subset of financial reporting.

In addition, as required by legislation, we produce an Annual Report containing our financial statements as well as non-financial information. This includes reporting against the performance information set out in our planning documents. In the interests of readability and to assist readers' understanding of our performance, it is important that the service performance information is located with the narrative explaining what we have done during the year against our strategic objectives and priorities. Service performance information would lose some of its meaning if it was included within the financial statements rather than with the other non-financial information.

6. *Do you agree with the proposed scope in relation to:*

6.1 *public sector public benefit entities with existing legislative requirements to report service performance information;*

6.2 *public sector public benefit entities currently without existing legislative requirements to report service performance information; and*

6.3 *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 agree that this standard should apply where public sector public benefit entities have existing legislative requirements to report service performance information as a means to standardise the key principles which all high quality performance information should meet. However, the NZASB should ensure that the Standard does not conflict with the requirements or intent of existing legislative requirements and guidance published by central agencies.

A lot of the requirements in the Standard are already required under legislation for many public section PBEs so the main purpose of the Standard should be to ensure that the preparation and presentation of service performance information is consistent across

entities, for example, that comparable information is included, or that the principles of verifiability, fair representation etc are met.

In addition XRB should also consider how the Service Performance Standard will align with the Auditor-General's Auditing Standards 4, which provides guidance to auditors on the auditing of service performance reports required by some public benefit entities under legislation.

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

As a result of the changes to the Crown Entities Act, we have moved away from a strict use of outputs, impacts and outcomes, to a model more appropriate for the Commission and the Authority. As a result of the proposed standard we are likely to need to revise this work/revert to our previous model which we do not think was as useful for telling the Commission's story. Despite this, we would likely be able to meet the majority of the requirements of this Standard within the proposed two year implementation period.

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.

We do not agree with the changes to the title and content of this Standard. As mentioned in response to question 5, if non-financial information is to be included with the financial statements then the title should be changed to reflect that the reports contain both financial and non-financial information. This will also help non-financial performance reporting to be seen as on an equal footing with financial reporting rather than an add-on, which is important for improving the quality of the information.

In addition, we consider the draft approach adds complexity to the understanding of the Standards, particularly for people who are not qualified accountants. Under the proposed structure, people who want to understand the requirements for reporting service performance information would have to refer to two different Standards, including one where the majority of the Standard is not applicable, which could lead to some confusion. It would be more appropriate to incorporate or reference the sections of PBE IPSAS 1 that are applicable to service performance information within the proposed service performance reporting standard.

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

Some of the information in the proposed Standard would be better provided as guidance, for example, the requirement to report on outputs, impacts and outcomes. This is one example of a way which service performance information can be reported and both the ED itself and the changes to the Crown Entities Act recognise that it may not be the most appropriate model for all entities. It would therefore appear to be more appropriate for

this to form guidance to support the proposed standard, eg, as a model which could be used to fulfil the high-level principles in the standard, than as a part of the standard itself.

The standard should include the high level principles and requirements. Everything else could be covered by guidance, including appropriate examples.

We suggest you discuss with Treasury, SSC, the OAG and Audit NZ to possibility of creating one set of guidance for each category of agency. The desired result of better non-financial performance information would be greatly assisted by a cross agency approach.

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

We commend the stated intention for a “high-level principles-based approach” in this Standard but do not think this has been met as the resulting standard has the potential to be quite restrictive. Despite assurances that they can be applied as appropriate, the three dimensions, and in particular the use of the terms outputs, impacts and outcomes, are likely to lead to confusion and extended discussion within agencies and with our auditors each year rather than clarify the requirements for performance information.

The success of the new standard will rely on ongoing support and education. Consideration should be given to ensuring that this reaches all those who are, and who will need to be in future, involved in non-financial performance planning and reporting. This includes the governance levels, senior management, and staff involved in developing performance measures, and associated systems. As noted in presentations regarding the ED, non-financial performance is not always the domain of accountants. However, accountants, and in particular auditors do require a sound understanding of non-financial performance. We encourage XRB to reach out to partners in government (for example Audit NZ who engage many recent graduate accountants to conduct non-financial performance audits) and universities to assist in ensuring that the Standard is incorporated into future training and formal education.