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Via email: submissions@xrb.govt.nz

Submission regarding ED NZASB 2016-6 Service Performance Reporting

Thank you for the opportunity to provide comments on your Exposure Draft NZASB 2016-6 regarding Service Performance Reporting. Attached are our comments from our review of the proposed accounting standard.

We are aware that the XRB intends to publish submissions on your website. We have no issue with this.

Any questions with regard to this submission should be referred to the writers Craig Fisher & Wayne Tukiri via (09) 367-1656 or craig.fisher@rsmnz.co.nz or wayne.tukiri@rsmnz.co.nz

Yours sincerely



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About RSM in New Zealand

RSM in New Zealand is a leading provider in audit, tax and consulting services to commercial organisations, public sector entities, as well as having a specialisation in providing audit and assurance and services to the not-for-profit/charitable sector.

The RSM New Zealand group consists of the business advisory and tax operation, RSM New Zealand, and specialist audit and assurance firm, RSM Hayes Audit. With 17 partners and 135 staff we operate from offices in Newmarket, Albany, Highbrook and Manukau. While based in Auckland we act for clients nationwide. In addition, RSM is a leading member of the NZ CA network of 29 accounting firms throughout New Zealand.

RSM in New Zealand is proudly NZ owned and operated and is a member of RSM International - the sixth largest international accounting network of independent audit, tax and consulting firms in the world.

RSM Hayes Audit is our dedicated audit practice, led by six specialist audit partners and currently has a full time specialist audit team of approximately 50. We are a registered audit firm under the Auditor Regulation Act 2011 and currently have 6 licensed auditors. Our audit client base essentially represents a snap-shot of the New Zealand economy ranging across most sectors and entity types. This currently includes a range of smaller issuers, numerous SMEs, large private entities, state sector entities and a significant number of not-for-profit and charitable entities.

At RSM, we have taken, and continue to take, an active interest and involvement in standard setting in New Zealand with one of our audit partners being the former chair of the New Zealand Institute of Chartered Accountants Professional Standards Board and representing New Zealand internationally in assurance standard setting. He is now a member of the NZAuASB which is involved in developing guidance and standards for service performance reporting.

Background context regarding Service Performance Reporting

Our views in this submission have been formed largely from our direct involvement in assisting clients and other stakeholders individually and in groups in matters relating to service performance reporting. This has included providing education regarding service performance reporting via seminars, workshops, and article writing. We have also been involved in assisting clients with the preparation of service performance reports as well as providing assurance over early adopters and Tier 3 entities' performance reports.

Overarching Observations

We strongly agree with the overall aim of requiring entity and service performance reporting and applaud the New Zealand developments in this area. Our view is that a more holistic level of performance reporting that this initiative will engender should be a very positive development for stakeholders seeking information about PBEs in New Zealand, and more generally for New Zealand society.

We believe service performance reporting should provide much more useful information for stakeholders and decision makers who in most cases do not have the power to require such information. Due to the service objectives of most PBEs we believe the information required by service performance reporting is generally much more important for assessing an entity's overall performance than just the financial statements.

We also note the strong parallels with the international movement towards requiring integrated reporting. As such, with the legislative requirement already in place in New Zealand for entity information and service performance reporting applying to some PBEs, we believe New Zealand has the opportunity to be an international leader and role model in this area.

However, while we see this as a significant opportunity to improve reporting in New Zealand for PBEs, we also do not underestimate the challenge that this new requirement will impose of some entities. From our experience with assisting clients to date we have found vastly different levels of ability, and desire, to provide service performance reporting. This is in terms of buy-in to the concept at the governance level, understanding the technical requirements, resource and capacity constraints within organisations, as well as whether the type of activities of the specific PBE lend themselves to ease of service performance reporting (e.g. where outputs and outcomes are not easily definable).

We have also already experienced first-hand the difficult situation auditors can be placed in when they are having to educate clients about the requirement for service performance reporting where client and/or their external accountant's awareness and knowledge is sadly lacking. We are also aware of some auditors very concerned about this new requirement. Accordingly, we support all efforts in raising awareness and promoting education for preparers and auditors. It is important that these initiatives also target governing bodies as their early engagement and buy-in to the concept is critical in ensuring that meaningful information is produced and reported. We have been urging philanthropic funders who we are in contact with to assist in this area in relation to assisting preparers, as good quality service performance reporting is in their best interests as well as being positive for the wider community.

As regards auditors we believe it is important that they are given the tools and educated to assist their clients, and especially so as not to squash this early stage initiative with a rigid overly strict compliance attitude. Specifically, we see the scenario that a plethora of qualified audit opinions, a possible outcome of risk adverse auditors, would likely be very detrimental to this emerging area.

Hence we suggest considerable care needs to be taken to strike an appropriate balance between requiring achievable information and not making this so hard to produce and audit that it causes bad-will and negates the positive intention. Failure for this new reporting to be embraced positively by the sector will result in information of much less use to wider stakeholders.

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?

We agree that the dimensions of service performance in the ED are a useful way of identifying the information to be reported.

We find the dimensions reasonably easily understood by users and hence wonder if it is not preferable to incorporate these into the definitions of the terms inputs, outputs & outcomes in the standard.

We do however foresee some potential complications for some entities especially as regards attribution for their impact. i.e. measuring and claiming responsibility for outcomes when for example a number of different social service agencies may be involved in addressing a particular social service need.

We find it unusual that the term "impact" is not defined yet appears to be a key concept. Additionally, we note the potential for confusion in that the definition of an outcome uses the term "the impacts on society..."

From practical experience we have found it very difficult to explain the distinction between outcomes and impacts to clients. Accordingly, if impact reporting is continued to be required then we think that there needs to be clearer definitions, and there should be further guidance regarding distinguishing between the two different concepts.

This raises the question of whether there should only be two dimensions being outputs and outcomes, albeit we appreciate this is a fairly significant change. We note this is the case with the Tier 3 reporting requirements.

There is also a subtle, but important, distinction between impacts that an entity "influences" rather than "controls". Further elaboration or guidance regarding reporting on this may be of assistance.

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 agree that application of the qualitative characteristics and appropriate balancing of the pervasive constraints on information, if dutifully considered by preparers, should result in appropriate and meaningful service performance information. However practically we appreciate that not all qualitative characteristics may be achievable in all cases.

Hence we reiterate the importance of auditors not applying the qualitative characteristics overly vigorously (e.g. qualifying where there may be some gaps), but rather applying sound professional judgement to ensure a “fair reflection” of service performance has been achieved. Otherwise, there is a risk of negative reaction from entities in respect of this becoming a compliance, rather than stakeholder-informing, exercise.

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 that the use of the term ‘appropriate and meaningful’ is appropriate.

We also think the faithful representation qualitative characteristic is very important. There is an inherent danger that entities will just seek to disclose positive information and avoid or ignore reporting any results that may in any way be negative. We think that in order for service reporting to achieve the aim of a holistic view of performance that it is important that preparers are reminded of the need for a complete and neutral view. Failure in this regard could result SSPs resulting in a sugar coated marketing spin instead of honest holistic reporting of performance and achievement.

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

We agree with the proposed information to be reported. We do however make the following observations:

1. We think that there could possibly be more in the definitions section of the standard.
2. Paragraph 44 is a very important paragraph as regards reporting impacts. In our work we have already seen a wide variety from some entities easily being able to report impacts, to others where it is virtually impossible. We wonder if this concession should not be highlighted more. However, we are also aware that there is a risk that some entities may see this as a “get out of jail” card and use this as an excuse to avoid hard thinking as regards impacts. We do however think the latter risk is much lesser than the former.
3. With our auditors hat on we are concerned that there currently may not be enough specificity in the standard as regards the requirements for a preparer to explain the basis of their chosen measures etc. i.e. identifying the output and outcomes that are appropriate to be reported. The entity needs to be the one making the decisions around outputs being reported on and linkages to outcomes and impacts.

Our concern is that auditors should be providing an independent opinion on the work of a preparer. Their role is narrower than the preparers. Auditors should ideally follow, and not lead in disclosure, unless the preparer’s disclosure is clearly deficient. Hence auditors should not have to make new disclosures as regards the basis for determining which measures to report etc. because it is not clear enough by the preparer. Accordingly, we are concerned that it should be very clear to the preparer as to required disclosures.

In our opinion there needs to be a general aim that preparers describe fulsomely enough in the financial report so that the auditor does not need a huge degree of volume of information in their audit report.

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?

Yes, we agree.

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.

Yes, we agree with the proposed scope.

We appreciate the current reasoning for different treatment with some public sector PBEs given OAG mandate etc., albeit given the policy and purpose behind this reporting we would suggest over time that it is logical that this be applied to the entire PBE sector.

We suspect that there may be a cost outcry from some in the NFP sector given that this will be negatively seen by some as a new compliance burden, rather than as a positive opportunity for improved stakeholder communications. However, we don't see this as a reason for exempting entities or reducing the requirements.

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

We agree that a two-year implementation period for mandatory application would be appropriate. It will take time for some entities not currently doing any of this type of stakeholder communication reporting to become aware of it, understand it and determine how it applies in their specific circumstances and then develop appropriate reporting.

However, we also strongly support early adoption being allowed as many in the sector are already well down the path of this type of reporting albeit that they may have not seen it specifically as service performance reporting in the context of a standard previously. For these NFPs with already reasonably sophisticated stakeholder communication we suspect it will not be a significant exercise to realign their existing reporting to comply with the proposed standard.

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.

Yes, we agree that a name change is needed and technical clarity is required. However, we do have a practical concern that the subtle technicality of the proposed title change will be lost on most of the NFP population.

We also believe that it will take some time to ingrain the term "Performance Reports" into the sector as a replacement for Annual Financial Statements. Accordingly, perhaps there is an opportunity to incorporate that into the title. The title "Presentation of Financial Reports" implies it is not concerned with non-financial reporting.

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

We suggest practical "how to" approach guidance is required and always appreciated.

We have already faced an interesting conundrum from Tier 3 entities and early adopters in that many of them have just wanted to be provided with the "template" or the "model example". This request appears to be coming from a quick compliance mentality, and just wanting to copy someone else's to make their life easy.

We have been loath to provide “the answer” as it appears some are looking for. Our reasoning for specifically steering away from providing a model(s) is as, at its core, service performance reporting done well is about reflecting the specifics and uniqueness of the individual organisation. It should also cascade down from an entity’s vision and mission, not built up from some outputs that can be measured. Hence why governing body engagement is necessary and why a template model approach is not desirable.

To progress conversations though and to be of assistance we have however pointed some of our clients to a range of good examples to show them the wide variety of different ways to effectively communicate this type of information.

As such we believe that there may be a place for some examples but considerable care taken to ensure that anything provided is not seen as “the sanctioned answer”.

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

Trans-Tasman harmonization

We are aware that there is also a standard being developed in Australia but that that standard has some fundamental differences in what it covers and how. While we applaud trans-Tasman harmonisation wherever practical we believe in this instance the first priority of the New Zealand is to follow the NZ policy ideals for Service Performance Reporting which is a key plank of our PBE framework.

Liaison with, and role of others regarding Service Performance Reporting

We urge the XRB to liaise with other key parties in the reporting supply chain and all encouragement of them to become advocates for and to enlist their assistance in awareness raising, education and sector support.

Key parties we believe with a role to play are:

- The professional accountancy bodies: CA ANZ and CPA
- The philanthropic funding community
- Government related funders
- Other professional bodies linking to governance such as IOD, Governance NZ etc.

Development of assurance standards

We look forward to the development of appropriate assurance standards. We do however reiterate that considerable care needs to be taken that there is not a greater requirement on auditors compared to the requirements on preparers, especially as regards specificity of disclosures.