

RSM Hayes Audit

PO Box 9588
Newmarket, Auckland 1149
Level 1, 1 Broadway
Newmarket, Auckland 1023

T +64 (9) 367 1656
www.rsmnz.co.nz

12 July 2017

Warren Allen FCA
Chief Executive
External Reporting Board
PO Box 11250
Manners St Central
WELLINGTON 6142

Via email: submissions@xrb.govt.nz

Submission regarding Limited Scope review of ED NZASB 2016-6 Service Performance Reporting

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

We are aware that the XRB may 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



C. R. Fisher
Audit Partner, Chairman



W.T. Tukiri
Associate Director - Audit & People

Background context regarding Service Performance Reporting

Our views in this and our earlier 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 or attributed to a single entity in a multi-entity environment).

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.

Having said this, we have on the whole been impressed with how well many of the Tier 3 & 4 entities we deal with have quickly grasped the service reporting concept and made good initial attempts at their service reporting. A further observation is that entities themselves have been better at doing this than some chartered accountants assisting small charities in their reporting. i.e. the level of knowledge of the chartered accountants in some cases has been embarrassingly lacking.

As regards auditors, we believe it is important that they are given the tools and education 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, and likely criticism of it being seen as a further compliance cost.

Your Question:

Taking into account the proposals in the 2016 ED, the comments received and the changes made in response to those comments, do you have any comments on the workability of the revised proposals or whether they would have any unintended consequences?

Overall, we believe that the decision to move to a higher principle based approach to be a sensible one. We expect that this greater flexibility in how to tell their story will be appreciated by preparers and the wider sector. In addition, we hope that this will encourage a positive reaction from the sector to this new requirement as well as greater innovation in reporting and communication to stakeholders.

We have the following main concerns with the revised proposed accounting standard.

Timing

We are concerned in relation to the likely effective date of the proposed service performance accounting standard. We understand this is proposed to be effective for periods beginning on or after 1 January 2021 (i.e. December 2021 year-ends). While we appreciate the logistics challenge of approval of a new standard, and the need to allow some implementation readiness period, we are concerned that some in the sector are likely to see this not needing to do anything until 2021. We believe this will be a lost opportunity for significantly improved reporting in the PBE sector.

We appreciate that early adoption before the mandatory date will be available once the standard is issued. However, our past experience of accounting standard changes would indicate that only a few are likely to voluntarily early adopt. We think a mandatory date that far out will be a significant lost opportunity to substantially improve the quality of PBE reporting in New Zealand. We have already seen some significant positives in improved stakeholder communication, clearer organisational focus, and a positive response from many funders to the Tier 3 and 4 PBE requirement for service performance reporting.

We also understand that one of the logistics concerns is the desire to ensure that the new SSP accounting standard and the related SSP assurance standard are effective at the same time. If this is the primary hold-up for earlier implementation we do not believe that it would be a significant problem if the SSP element of Tier 1 and 2 PBEs was not required to be audited for say 1 year. However, we appreciate that this may have legislative challenges.

Difference in terminology from the Tier 3 & Tier 4 requirements

While we appreciate the rationale to take the proposed accounting standard to a higher principles basis, we believe it is unfortunate that the terminology is now inconsistent between the proposed Tier 1&2 requirements and the Tier 3&4 standards. This is with the latter still referring to the terms Outcomes and Outputs. We also note subtle differences in the fundamental questions that the two standards are asking of preparers to answer.

We have already experienced some client confusion around service performance terminology and requirements when assisting a Tier 2 entity thinking about their own service performance reporting in the context of them assisting their Tier 3 subsidiary entities with output and outcome reporting.

We expect a possible unintended consequence could arise from a Tier 1 or 2 PBE trying to report on an outputs and outcomes basis by consolidating the service performance reports of multiple subsidiaries.

We appreciate that the NZASB is unlikely to want to disrupt the Tier 3 & 4 standards so soon after their issue and hence we are likely to just have to live with this situation. As such we suggest that some guidance material or education may be of assistance in this area.

Specificity of requirements from an audit perspective

We believe that the revised accounting standard may pose some challenges to auditors due to the very high level principles approach and the lack of strict defined criteria or a generally understood and agreed framework for auditors to assess reporting against. For example, it may be more challenging for the auditor to determine material omission of information (e.g. particularly where the entity's performance has not been positive). Without clear requirements or guidance within the accounting standard this may result in auditors being put in the difficult position of being unhappy with disclosure when the preparer may feel there is no compulsion to disclose from their interpretation of the accounting standard that they are following.

On balance, we believe that this is probably just a price to pay for a high-level accounting standard in an area that is by its nature more subjective and varied than areas normally covered by accounting standards. However, it is probably better that such a challenge is given to the likely smaller population of qualified auditors, rather than a greater challenge being imposed over the larger, and perhaps not always as technical accounting skilled (?), preparer population.

We do however see the requirement for preparers to disclose their critical judgements as regards service performance reporting to be vitally important in order to allow auditors to perform their work and to avoid unnecessary qualified audit opinions. We also believe some description of how materiality has been applied by preparers may also be required.

We appreciate the explanation of judgements to be disclosed in paragraphs 45 and 46 of the proposed standard and consider these helpful explanations. However, we have a remaining concern as to how the term "critical" will be interpreted by preparers and fear this may be open to potentially very wide interpretation by different preparers. Our concern primarily with this term is that some may take it as being a negative interpretation and hence may not be inclined to disclose otherwise important or significant information as they don't assess this as critical. Accordingly, we think this area will be one where practical guidance and examples may be most beneficial.

A further consequence or trade-off, is that the greater flexibility allowed to preparers will likely lead to reduction in comparability between entities operating in similar fields. This may also reflect different interpretations by different auditors as to what is acceptable under the standard. In an extreme case, this could raise the risk of auditor opinion-shopping.

We suggest consideration be given to any guidance and education to assist preparers with judgement disclosure. We also urge guidance and education be developed to auditors regarding how to approach the audit of this new and in some cases, challenging area of reporting.

Guidance

As noted above we believe that good practical guidance will be required if this important new standard is to be positively received and adopted and the benefits from this improved stakeholder communication is to be realised. Given the nature of the standard's subject matter we think it may be very beneficial to obtain the views of a range of preparers from the sector to obtain some first-hand feedback on their understanding and interpretation of what the standard is asking of them. We would be happy to assist in facilitating this if of value.

Appendix

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 21 partners and 140+ 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.