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AUSTRALIA + NEW ZEALAND

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By email: submissions@xrb.govt.nz

Dear Kimberley

Service Performance Reporting – Limited Scope Consultation

Thank you for your letter dated 29 May and the opportunity to provide feedback on the limited scope review draft of the Service Performance Reporting standard (the “draft standard”). Service performance reporting is becoming increasingly prevalent, and we commend the New Zealand Accounting Standards Board’s (NZASB) efforts to establish a framework for such reporting in New Zealand. We acknowledge that the proposals have undergone significant revision and are now very different to Exposure Draft 2016-6 (“the ED”). We consider that, on the whole, the changes made reflect the views expressed in our submission on the ED as well as those conveyed by other parties.

We appreciate the difficulty in developing a standard which will apply to both the public sector and the not-for-profit (NFP) sector. There are a number of different service performance reporting requirements across these sectors, including those written into legislation and those set by funders. As such it is important to avoid introducing conflicting or potentially confusing requirements in the draft standard. We support the high-level principles-based approach taken in the draft standard to allow both public sector and NFP entities the flexibility to report service performance information in accordance with any existing requirements.

We welcome the flexibility encouraged by the draft standard and the fact that it does not prescribe the format of service performance information. Such flexibility will encourage entities to ‘tell their performance story’ in a way that is appropriate for that entity and as such will better meet user’s needs. The ability to report more specific information also aligns with one of the International Accounting Standards Board’s (IASB) key themes; *Better Communication in Financial Reporting*.

Against this backdrop of support, we have the following comments.

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Scope

Paragraph 3(b) refers to “*Tier 1 and Tier 2 public sector public benefit entities required by legislation to provide information in respect of service performance in accordance with generally accepted accounting practice (GAAP)*”. The reference to GAAP will scope out some entities where legislation does not explicitly reference GAAP such as council-controlled organisations under section 68 of the Local Government Act 2002 and school board’s under section 87 of the Education Act 1989. On this basis we recommend removing the reference to GAAP so that all Tier 1 and Tier 2 public sector public benefit entities required by legislation to provide information in respect of service performance must do so in accordance with the standard.

Qualitative characteristics

The flexibility permitted by the draft standard gives rise to the risk of biased reporting of service performance information. Paragraph 8 acknowledges that “*all qualitative characteristics may not be fully achieved, and a balance or trade-off between certain of them may be necessary*”. In our view the qualitative characteristic of ‘*faithful representation*’ is paramount – service performance information should always be complete, neutral and free from material error. Therefore we recommend that no trade-off be permitted for this qualitative characteristic.

Disclosure of judgements

The requirement to disclose critical judgements in paragraph 44 is essential as it provides the criteria for an assurance practitioner to evaluate the reported service performance information against when conducting an assurance engagement. These criteria also need to be available to the intended users to allow them to understand how decisions are made on what is reported and why. Therefore, we would be concerned if the requirement to disclose critical judgements was removed as a result of this limited scope consultation.

Guidance and illustrative examples

Reviews of Tier 3 and 4 charity Performance Reports have highlighted the challenges experienced in meeting the new reporting requirements for service performance information. Similar transitional issues were experienced when the public sector adopted service performance reporting two decades ago. As such, additional guidance would be well received. The factors included in paragraph 19 are a good starting point in this regard. In particular it would be useful to include an illustrative example where there has been a trade-off between the qualitative characteristics. Given its importance, we also recommend illustrative examples of disclosures of critical judgements.

Structure

The format of the PBE Standards generally include a ‘Definition’ section after the ‘Scope’ section. For consistency, we recommend inclusion of a ‘Definition’ section where the terms ‘*service performance information*’ and ‘*appropriate and meaningful*’ are explicitly defined. We note that ‘*service performance information*’ has been described in paragraph 2 and this could form the basis for the definition. We also note that paragraph BC21 clarifies that the term ‘*appropriate and meaningful*’ should be considered from the user’s point of view. Paragraph 22 also provides discussion on assessing which performance measures are the most appropriate and meaningful. Both of these could be drawn upon in the development of a definition.

Trans-Tasman alignment

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 NZASB in developing the proposals. We encourage trans-Tasman harmonisation, where appropriate, in finalising the requirements of these standards.

Appendix A includes a number of editorial suggestions. Should you have any queries concerning the matters in this submission, or wish to discuss them in further detail, please contact Zowie Pateman (Acting Reporting Leader) via email at zowie.pateman@charteredaccountantsanz.com.

Yours sincerely

A handwritten signature in black ink that reads "Liz Stamford". The signature is written in a cursive, flowing style.

Liz Stamford
Head of Policy
Chartered Accountants Australia and New Zealand

Appendix A: Editorial suggestions

Draft standard reference	Explanation of suggested change
Paragraph 6	Insert ' <i>holistic</i> ' (ie 'Presentation of service performance information together with financial statements enables users to make [<i>holistic</i>] assessments of the entity's performance').
Paragraph 14	Change ' <i>often</i> ' to ' <i>should</i> ' (ie 'However, public benefit entities [<i>should</i>] have long-term service performance objectives'). Paragraph 15(a) requires entities to report contextual information about what it intends to achieve over the medium to long term so the proposed terminology appears to be inconsistent with this requirement.
Paragraph 17	Delete ' <i>at its highest level of management or in the governance of the entity</i> ' and the second mention of ' <i>performance framework, theory of change or intervention logic</i> ' We consider these references are superfluous and make the paragraph difficult to read.
Paragraph 20	Given the importance of the first sentence we support this being a black letter requirement.
Paragraph 28	Given the importance of the sentence ' <i>If an entity reports on the cost of goods and services it shall provide a reconciliation between the expenses in the financial statements and the total goods and services costs reported in the service performance information</i> ' we support this being a black letter requirement.
Paragraph 32	Replace ' <i>An entity may</i> ' with ' <i>Where possible an entity shall</i> '
Paragraph BC5	Insert ' <i>to</i> ' (ie 'in order [<i>to</i>] address a gap in its PBE Standards').