



28 July 2017

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

Dear Warren

Limited Scope Review Draft – PBE FRS XX *Service Performance Reporting*

We appreciate the opportunity to comment on Review Draft - PBE FRS XX *Service Performance Reporting* (the review draft).

Overall, we are pleased with the review draft. We think the review draft addresses many of the comments we made in our submission to the External Reporting Board (XRB), dated 28 July 2016, about Exposure Draft NZASB 2016-6 *Service Performance Reporting*.

As requested, we have considered whether the review draft is workable and whether it creates any unintended consequences. At a high-level, other than the proposed amendments to FRS 42 *Prospective Financial Statements* we think the review draft is workable and does not create any unintended consequences. We have some concerns about the proposed amendments to PBE FRS 42 *Prospective Financial Statements* because, in our experience, prospective service performance information is different to prospective financial statement information. We do not think that amending PBE FRS 42 *Prospective Financial Statements* as proposed, is the best approach to address matters relating to prospective service performance information.

We attach to this letter comments about the proposed amendments to FRS 42 *Prospective Financial Statements* and comments about the review draft that focus on improving some requirements and making some points clearer. Please note that our comments primarily focus on PBEs in the public sector.

We see real value in the NZASB conducting a post implementation review once the standard has been applied in practice for two or three years.

Our comments on the review draft and the proposed amendments to FRS 42 *Prospective Financial Statements* are a result of collaboration between my staff at Audit New Zealand and the Office of the Auditor-General.

If you have any questions about our submission, please phone Todd Beardsworth, Assistant Auditor-General, Accounting and Auditing Policy on 021 244 0727 or email him at todd.beardsworth@oag.govt.nz.

Yours sincerely


Greg Schollum
Deputy Controller and Auditor-General

The Limited Scope Review asked submitters to respond to the following 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?”

Our comments are as follows:

Consequential amendments to PBE FRS 42 *Prospective Financial Statements*

Prospective service performance information is different to prospective financial statement information.

Prospective financial statement information provides the best estimate of the future financial performance and position of an entity. Readers can then compare actual results against the prospective information.

In our experience, prospective service performance information provides targets and measures for what an entity is aiming to achieve, and this is not necessarily the best estimate of what the entity will achieve. Readers can then compare actual achievements against what the entity aimed to achieve.

This difference suggests to us that the characteristics of prospective financial statement information cannot necessarily be applied to prospective service performance information. We think the proposed amendments could result in unintended changes to the way that prospective service performance information is prepared in future.

In our view, the proposed amendments to PBE FRS 42 *Prospective Financial Statements* should not be made. We think the NZASB should carry out further work to determine how best to cater for prospective service performance information.

Output cost disclosure (paragraph 28)

It is important that performance information is integrated with financial information as set out in paragraph 28 of the review draft. We do not think there will be many situations where it is not practicable for entities to disclose output costs. We think that the bar for non-disclosure of output cost information should be set at a high level. Therefore, we consider that the wording of the review draft should be strengthened to require cost disclosures related to services or activities, unless it is impracticable to do so.

Cross referencing performance reporting information (paragraph 35)

Where cross referenced material forms part of the service performance report for a particular period, we think that information should be required to remain static as well as available. We would be concerned if cross referenced information was updated over time and the historical information lost.

(We are less concerned about cross referenced information that does not make up the service performance report.)

Material prior period errors (paragraph 43)

Paragraph 43 could be improved by stating that material numerical prior period errors should be corrected and accompanied by a narrative explanation of the error.

We are happy that narrative prior period errors are required to be explained.

Disclosure of judgements (paragraph 44 - 46)

Paragraph 45 defines critical judgements as “those that have the most significant effect on the selection and aggregation of service performance information”. We believe that there are other critical judgements that should be disclosed, such as critical judgements in determining the actual level of performance against a measure.

At times, we see important performance measures that are challenging to measure, with complex methodologies and key judgements made in applying these. Examples might be:

- Measuring savings or economic benefits from a major project or initiative,
- Quantifying social benefits,
- Measuring greenhouse gas emissions at an entity or national level.

For these types of measures, we consider some level of disclosure about judgements made in measuring performance (plus perhaps methodologies and assumptions) is important to provide information to the reader about how performance has been assessed.

In the public sector critical judgements about selection and aggregation of performance measures are often set out in forward looking documents, such as statements of intent, statements of performance expectations or council long term plans. We think that paragraphs 44 to 46 should make it clear that aspects of the disclosure requirement could be satisfied by cross-referencing to such documents.

Less significant matters

Paragraph 20 – Paragraph 15 tells users of the review draft “what” information they should provide about service performance, and the text is in bold. Paragraph 20 tells users “how” they might measure the information referred to in paragraph 15, and we consider it would be useful and consistent to present paragraph 20 in bold text.

Paragraph 21 – The term “financial statements” should be replaced with “financial report” so it is consistent with other paragraphs in the review draft.