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External Reporting Board
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27 July 2017

Dear Warren,

Limited Scope Review Draft PBE FRS XX Service Performance Reporting

Thank you for providing the opportunity to further comment on the revised proposal that is relevant for Tier 1 and Tier 2 public benefit entities service performance reporting.

Overall, I am supportive of the New Zealand Accounting Standard Board's revised proposal. I am also pleased to find some significant changes made to the 2016 Exposure Draft. In order to assist the collation and analysis of comments, a XRB template is followed to provide specific comments regarding the workability of the revised proposal. Sector-appropriate guidance and exemplars are suggested to be developed in order to avoid confusion in applying this revised proposal.

Please note that my comments focus specifically on Tier 1 and Tier 2 not-for-profit, rather than public sector public benefit entities. The views expressed in this submission are my own personal views and do not necessarily reflect the views of Auckland University of Technology.

Should you wish to discuss any matter below, please do not hesitate to contact me.

Yours sincerely,



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Specific comments on the changes made to the 2016 ED:

Proposals in the 2016 ED	What have been changed	Further comments
Objective		
<p>To establish principles and requirements for an entity to present service performance information that is useful for accountability and decision-making purposes in a general purpose financial report.</p>	<p>No change.</p>	<p>Agree.</p>
Accountability and Decision Making		
<p>Paragraphs 2–8 of the 2016 ED contained a discussion on users of service performance information and how these users rely on this information for accountability and decision making.</p>	<p>Summarised and moved the discussion of accountability and decision making from the standard to an introduction.</p>	<p>The inclusion of an introduction provides an overview of the standard. The current draft considers resource providers and service recipients to be the primary users of service performance reports. Our own New Zealand study suggests that charities’ resource providers, especially government and philanthropic funders, have their own information needs and use various accountability mechanisms to enforce and encourage the provision of both required and needed information. As such, resource providers may not rely on service performance reports to make their funding decisions.</p> <p>I am pleased to find that the representatives of service recipients are included in the primary user group. The current understanding of service recipients’ own information needs is unfortunately still limited. While the information needs of service recipients (and their representatives) are sometimes assumed to be similar with resource providers, the information needs for these two groups of users may be largely different.</p> <p>The users who have limited powers of interrogation and rely on the service performance information for their accountability and decision making are likely to be individual donors (rather than large funders), volunteers,</p>

		<p>and general public. Thus, the users who rely on the service performance reports may be narrowly categorised.</p> <p>Further research is needed to understand the information needs and the extent to which key users, particularly service recipients and their representatives, utilise service performance reports for accountability and decision making.</p>
<p>Paragraph(s) 9 (and 10) of the 2016 ED referred to three dimensions of service performance which formed the basis of the requirements in the 2016 ED.</p> <ul style="list-style-type: none"> • “What did the entity do?” – provide information about the outputs provided by an entity during the period. • “Why did the entity do it?” – provide information about the outcomes that it seeks to influence and how its outputs contribute to those outcomes. • “What impact did the entity have?” – Provide information about the extent to which it has evidence of its influence on the groups or environment it is seeking to change. 	<p>Did not use the three dimensions of service performance in the standard. Kept some of the questions used to describe the dimensions of performance as suggestions for organising information (see the <i>Presentation</i> section).</p>	<p>Agree.</p>
<p>The 2016 ED included subsections on <i>Reporting on Outputs</i> and <i>Reporting on Outcomes and Impacts</i>.</p>	<p>Deleted these subsections. The <i>Information to be Reported</i> section identifies reporting requirements in more general terms. The reporting entity concept (ED, paragraph 11) is discussed in the <i>Information to be Reported</i> section.</p>	<p>Agree.</p>
<p>Scope</p>		

<p>All Tier 1 and 2 not-for-profit public benefit entities and Tier 1 and Tier 2 public sector public benefit entities required by legislation to provide a statement of service performance (by whatever name called).</p> <p>The 2016 ED encouraged all public sector public benefit entities to report in accordance with the draft standard.</p>	<p>Redrafted the scope paragraph to clarify the application of the standard by public sector PBEs and to acknowledge that legislative reporting requirements may apply to only some of an entity's activities.</p> <p>Encouraged the application of the principles and requirements to service performance information outside the scope of the standard.</p>	<p>Agree.</p>
Definitions		
<p>The 2016 ED defined inputs, outcomes, outputs and performance indicators.</p>	<p>Referred to aspects of service performance in more general terms and deleted all definitions from the standard.</p>	<p>Agree.</p>
Principles		
<p>This section of the 2016 ED included subsections on the <i>Qualitative Characteristics</i> and <i>Constraints</i>. The 2016 ED required that an entity present service performance information that is useful for accountability and decision-making and enable users to make assessments of the entity's performance.</p> <p>It also required that an entity's service performance information satisfy, to the extent possible, the qualitative characteristics (QCs) and appropriately balance the pervasive constraints. The 2016 ED stated that this should result in service performance information that is "appropriate and meaningful."</p>	<p>No major changes to the underlying principles in the ED.</p> <p>Established a requirement for an entity to apply the QCs and pervasive constraints by removing the words "satisfies the QCs to the extent possible" with "shall apply the QCs".</p> <p>Added a paragraph from the PBE Conceptual Framework on the trade-off needed between the QCs.</p> <p>Emphasised the role of neutrality in faithful representation.</p> <p>Clarified that the assessment of what is appropriate and meaningful is from the user's point of view.</p> <p>Clarified that an entity presents service performance information in the same general purpose financial report as its financial statements.</p>	<p>Agree with all changes in these sections, especially the emphasis of the neutrality in terms of "unfavourable" aspects of the entity's service performance.</p> <p>Our own research identifies that funders perceive an information need for <i>unintended outcomes</i>. The unintended outcomes are not necessarily unfavourable. They refer to achieved outcomes that differ from what the entity intends to achieve in the reporting periods. The reporting of unintended outcomes is recognised as an important type of information to tell a charity's accountability story.</p> <p>It may be useful to acknowledge the difficulty to achieve QCs <i>comparability</i> and <i>verifiability</i> in the context of qualitative measures and descriptions.</p>

Information to be Reported		
<p>The 2016 ED included subsections headed <i>Entity Information</i> and <i>Outputs and Outcomes</i>. The entity information section included requirements about the reporting entity and reporting period.</p> <p>The outputs and outcomes section required that an entity's service performance information include:</p> <ul style="list-style-type: none"> • outputs and performance indicators for outputs; • outcomes that the entity is seeking to influence and the links between the entity's outputs and those outcomes; and • a description of the impact that the entity has had on the outcomes that it is seeking to influence and performance indicators to support that description. <p>The 2016 ED noted the importance of cost information but did not mandate it on the grounds that cost information might not always be practicable or the most appropriate way of reporting on outputs.</p>	<p>Kept the reporting entity and reporting period requirements but acknowledged that in some situations legislation or appropriation requirements may specify which activities an entity reports on.</p> <p>Removed the requirement to report on the link between outputs and outcomes. Removed reporting on impacts as a separate requirement. Removed the terms outputs, outcomes and impacts from the requirements in the standard.</p> <p>Adopted a higher-level, non-prescriptive approach in drafting requirements for service performance information to be reported.</p> <p>Allowed for the range of other requirements that entities might be subject to and variations in the use of terminology.</p> <p>Allowed more flexibility in how an entity reports its service performance information. Established requirements for all entities to explain how what they have done in the current period links with the entity's broad objectives over the medium to long term. Allowed for much more detailed reporting by entities that use a performance framework (or similar). Continued to note the importance of cost information, but, for the reasons previously noted, did not mandate cost information.</p>	<p>This section contains some significant changes compared to the 2016 Exposure Draft. The following comments are provided to further improve this section:</p> <ul style="list-style-type: none"> • Para.19 - an important factor <i>To whom the entity is accountable</i> may be considered. The accountability to resource providers, service recipients and organisational mission (with an internal focus) can be discharged by different accountability mechanisms. As such, it is important to consider the 'to whom' question and provide a balanced view of an entity's performance for the reporting period. This factor may be the first question to consider in deciding what to report. • Para. 19 (a) second example – it is difficult to picture a Not-for-profit entity that is merely responsible for the delivery of specific types and/or volume of goods or services to a target population, without attempting to make improvements on the conditions and status of the target population. In the example of an entity provides support services to elderly people in a city, it is reasonable to believe that the entity would consider beyond merely the delivery of support services. This example provides confusion to guide Tiers 1 and 2 not-for-profit organisations in analysing <i>what they are accountable/responsible for</i>. • Para. 19 (c) – the explanatory notes may not entirely relevant to the factor <i>how it went about achieving its service performance objectives</i>. The focus of this section is suggested to be on whether planned service performance activities are delivered, and the extent to which the actual activities align with the planned activities i.e. what the entity intends to achieve. Then provide examples for both public sector and not-for-profit PBEs.

Performance Indicators		
<p>The 2016 ED provided a brief description of performance indicators and matters to be considered when selecting performance indicators for inclusion in service performance information.</p>	<p>Acknowledged that information on internal activities may be relevant.</p> <p>Included the section on Performance Indicators in the Information to be Reported section. It now requires that, in reporting on what an entity has done during the reporting period, an entity shall provide users with an appropriate and meaningful mix of performance measures and/or descriptions for the reporting period.</p>	<p>Agree. The information on internal activities is essential for the entities that value their organisational mission (why it exists) more than some other factors. The reporting of this information will also help the users to assess the overall performance of PBEs.</p>
Presentation		
<p>The 2016 ED did not prescribe the format of service performance information. Entities should select the format that best meets the information needs of their users.</p> <p>The 2016 ED encouraged cross referencing between the service performance information and the financial statements so that users could assess the service performance information within the context of the financial statements.</p> <p>The 2016 ED permitted cross referencing to information outside the service performance section of an entity's general purpose financial report to enhance the understandability of the service performance information.</p>	<p>Required that an entity clearly identify the service performance information presented in accordance with the standard.</p>	<p>While understanding the Board follows a high-level principles-based approach in this revised proposal, different templates adopted by Tiers 1 and 2 charities may impede users to compare relevant service performance information that is available with Charities Register.</p>
Comparative Information and Consistency of Reporting		
<p>The 2016 ED required the reporting of comparatives (this year versus last year).</p> <p>The 2016 ED required the reporting of prospective versus actual comparisons in the circumstances required by PBE IPSAS 1 (that is, if an entity had previously published its prospective service performance information).</p>	<p>Added an introductory paragraph to this section explaining the importance of comparative information.</p> <p>Clarified when comparisons with planned performance are required.</p> <p>Acknowledged that judgement is required in deciding when to provide comparative narrative and descriptive information.</p>	<p>Agree.</p>

The 2016 ED required entities to report service performance consistently and disclose changes in reporting.		
Disclosure of Judgements		
This section was not in the 2016 ED.	Required disclosure of the critical judgements made in reporting service performance information. As a consequence of changes to be less prescriptive around the information to be reported and thereby provide more flexibility for entities to make judgements about how best to ‘tell their story’, this disclosure provides a necessary counterbalance so users can understand how those judgements were made. Included the influence of consultation with users on service performance information as a possible critical judgement.	Agree.
Effective Date		
The 2016 ED proposed a two-year implementation period.	Allowed a three-year implementation period (1 January 2021) with early adoption permitted.	Agree.
Amendments to Other Standards		
The 2016 ED proposed amendments to PBE IPSAS 1 <i>Presentation of Financial Statements</i> to clarify that a general purpose financial report includes financial statements and, where appropriate, service performance information. The title of PBE IPSAS 1 would be changed to <i>Presentation of Financial Reports</i> .	No change to proposals – the title of PBE IPSAS 1 will be changed to <i>Presentation of Financial Reports</i> as this is consistent with the PBE Conceptual Framework.	Agree.
Guidance		
The invitation to comment which accompanied the 2016 ED asked respondents what type of guidance the NZASB should develop to support entities preparing service performance information in accordance with the proposed standard.	We intend to develop guidance with a focus on Tier 2 NFPs that may not have previously reported on service performance	Agree. It is essential to develop sector-appropriate guidance and provide exemplars for both Tiers 1 and 2 not-for-profit organisations in order to avoid confusion in applying this revised proposal.