

31 July 2017

NZ Accounting Standards Board (NZASB)
External Reporting Board
PO Box 11250
Manners Street Central
Wellington 6142

By email: submissions@xrb.govt.nz

Dear NZASB

Service Performance Reporting – Limited Scope Consultation

The Institute of Directors (IoD) appreciates the opportunity to provide further comment on the introduction of a PBE Standard on service performance reporting by commenting on the [Limited Scope Review Draft](#). The new Standard will apply to Tier 1 and Tier 2 public benefit entities (PBEs), both public and not-for-profit entities.

In the [IoD submission](#) (July 2016) on the Exposure Draft of the Standard (ED NZASB 2016-6) we noted our support for the introduction of a standard to provide PBEs with a framework for service performance reporting. Financial information alone doesn't tell the whole story and accurate, timely and meaningful non-financial information is essential for good governance. It helps enable the board to monitor performance, hold management to account and make more effective decisions.

We note that the NZASB is seeking comment specifically on the workability of the revised Standard and if there may be any unintended consequences. We re-iterate the comments made in our earlier submission and comment specifically on the changes in the revised Standard below.

About the Institute of Directors

The IoD is a non-partisan voluntary member organisation committed to driving excellence in governance. We represent a diverse membership of over 8,000 members drawn from NZX-listed corporations, private companies, small to medium enterprises, public sector organisations, not-for-profits and charities.

Our chartered membership pathway aims to raise the bar for director professionalism in New Zealand, including through continuing professional development to support good corporate governance.

Comments on revised Standard proposals

We support the changes in the revised Standard, including a more flexible approach to what service performance information is reported and the extended period before implementation of the new Standard. We expect these changes will assist the workability of a new service performance reporting regime.

Information to be reported

The revised Standard changes the requirements on what service performance information should be reported. The dimensions described as outputs, outcomes and impacts in the Exposure Draft have been replaced with higher level principles describing the information to be reported in more general terms. The revised Standard requires entities to provide users with:

- a) Sufficient contextual information to understand why the entity exists, what it intends to achieve in broad terms over the medium to long term, and how it goes about this; and
- b) Information about what the entity has done during the reporting period in working towards its broader aims and objectives, as described in (a).

We support this approach as providing more flexibility for entities. It is important that the framework is not too prescriptive and enables the provision of useful and relevant information for management and governance purposes. It is also important that it doesn't become overly compliance focused and that there is an appropriate balance between accountability for annual performance and working towards longer term objectives.

Disclosure of judgements

The revised Standard includes a new requirement that entities disclose the critical judgements it made that are relevant to understanding the entity's service performance information (such as in relation to the selection and aggregation of information).

We note that this is a consequence of the less prescriptive approach to the information to be reported and agree that it is a necessary counterbalance for a more flexible framework for reporting information. However it is also critical that the information reported is meaningful to the entity, and as stated in the Standard (21(b)) is 'not so much information that it could obscure the overall picture'.

Effective date for implementation

Introducing the new service performance reporting regime will mean significant change for many PBEs, particularly in the not-for-profit sector where this will be a new requirement.

Financial reporting is underpinned by professional qualifications and training, but there isn't such well-established capability in respect of non-financial reporting.

In our submission on the Exposure Draft we advocated for a phased approach (e.g. over 3 to 5 years) for implementing the new standard. We considered the proposed two-year implementation period was insufficient to enable effective transition to a new performance reporting regime for many PBEs.

We are pleased to see the extended period before the new standard will be applied, for annual reporting periods on or after 1 January 2021 (with early adoption permitted). We consider this longer transition period will better support awareness raising and capability building in PBEs, and the accounting and auditing professions, for the new performance reporting regime.

The extended period will also provide boards and others charged with responsibility for governance more time to deepen their understanding of the new reporting regime to enable them to fulfil their responsibilities effectively.

Conclusion

Performance reporting on financial and non-financial information is important for effective decision-making and accountability purposes.

The introduction of service reporting requirements will mean significant change for many PBEs. We support the proposed flexibility in how entities report service performance information and the extended implementation period. We also encourage the development of clear guidance and educational support for PBE entities.

The IoD appreciates the opportunity to make a submission on behalf of its members and we would be happy to discuss this submission.

Yours sincerely

A handwritten signature in black ink, reading "Felicity Caird". The signature is written in a cursive, flowing style.

Felicity Caird
Manager, Governance Leadership Centre