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**Intern report:
Service performance reporting in
the public and not-for-profit sectors**

**Te Herenga Waka Victoria University of Wellington
Summer Scholarship Internship**

Intern Report

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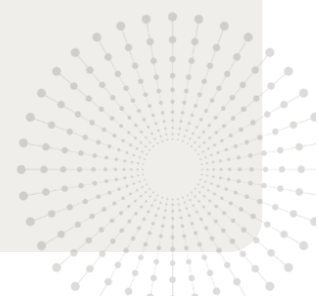
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Summer Scholarship Internship

The External Reporting Board (XRB) funded two research positions in conjunction with Victoria University of Wellington. It was our pleasure to host two university students based at the XRB's Wellington offices over the summer, under the supervision of Victoria University professors to research service performance reporting in the public and not-for-profit sectors, and the related audit matters. While the XRB provided the environment for this research, the findings and conclusions reached are entirely the students' own.

We look forward to exploring similar internship opportunities in the future.

Key findings

This research has identified several interesting findings. At a broad level, the following points from a representative sample of 295 public benefit entities (PBEs) address the questions set by the External Reporting Board at the conception of this project (see *Introduction*).

Service performance reporting

- All 45 public sector PBEs reported service performance measures. Ninety-five percent of the 250 charitable PBEs reported service performance measures.
- Public sector entities reported an average of 63 measures. Charitable PBEs reported an average of 15 measures. Measures were categorised in this research between Activity, Impact and Output. Activities were the most common type of measure reported by both charitable and public sector PBEs. Quantitative measures predominated over qualitative measures. Public sector PBEs reported a greater proportion of impact measures compared to charitable PBEs.
- While nearly 85% of all public sector PBEs reported at least one environmental sustainability measure, only 5.9% of charitable PBEs did so. Public sector PBEs regularly reported sustainability measures outside of the audited Statement of Service Performance (SSP) section.
- There was a weak positive correlation between the size of PBEs and the number of measures reported.
- Approximately 18% of charitable PBEs were judged by the researcher to have not provided an appropriate mix of measures.
- A sub-sample analysis suggested that charities do not regularly disclose the judgements relating to their service performance information.

Assurance of service performance reporting

- Big four firms conducted approximately 16% of the independent audits in our sample, with mid-tier organisations completing around 45%, and the remaining 39% performed by other entities.
- Approximately 10% of our sample received a modified opinion, with nearly half of these relating to service performance information. The primary reason cited for a modified opinion relating to service performance information was the lack of reliable records or appropriate systems to capture data.
- Audit costs increased by an average of \$8,364 between 2022 and 2023 for charities and public sector PBEs combined. Despite this, 50/295 (17%) PBEs reported a decrease in audit costs.
- Three audit reports contained a Key Audit Matter (one relating to SSP information), and 25 reports contained an Emphasis of Matter (four relating to SSP information).
- The auditors of all 45 public sector entities used the Auditor-General's Auditing Standards. Regarding charitable PBEs, 92% of Auditors used the International Standards on Auditing (NZ), the remaining 8% were audited in accordance using the Auditor-General's Auditing Standards or some other standard. 25% of audit reports cited International Standard on Assurance Engagements (NZ) 3000 (Revised), and 56% of cited New Zealand Auditing Standard 1.

Introduction

This research was funded by the External Reporting Board (XRB) under the Victoria University of Wellington summer scholarship scheme. It was designed to help the XRB understand how public benefit entities are applying the relatively new standard – PBE FRS 48 *Service Performance Reporting* which requires an entity to present information on why it exists, what it intends to achieve, and how it delivers on its strategic aims. By providing evidence of the impact of the standard and recently issued guidance, it was designed to assist future decisions about reporting and assurance requirements.

Public Benefit Entities are defined as “reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders”¹. PBE FRS 48 *Service Performance Reporting* became mandatory for Tier 1 and Tier 2 (larger) PBEs for accounting periods commencing on or after 1 January 2022, although it was issued in November 2017 and early adoption was encouraged. This research therefore sought to gain evidence and analyse the outcomes of the first year of mandatory application based on the analysis of service performance information reported in publicly available financial statements for public and not-for-profit public benefit entities.

A representative sample of Tier 1 and 2 PBEs was examined to answer the following questions to inform teams across the XRB:

1. On average how many service performance measures does an entity report? To what extent is this impacted by the size of the entity?
2. What is the nature of service performance measures reported – outputs focused, activities focused, or impact focused?
3. To what extent are quantitative versus qualitative performance measures reported? To what extent are the measurement or evaluation methods clear from the disclosures?
4. To what extent are sustainability-related service performance measures (e.g., gas emissions) reported as part of the service performance information?
5. What assurance standards or guidance are referenced in the audit report as used by the auditor? (e.g., ISAE (NZ) 3000 (Revised), NZ AS 1, NZ AS 1 (Revised), ISAE (NZ) 3410, OAG standard, or any guidance?)
6. To what extent are PBEs receiving modified audit opinions regarding service performance information? What do these modifications cover?
7. To what extent do the audit reports include Key Audit Matters or Emphasis of Matters that relate to service performance information?

This research will help inform the planning for a post-implementation review of PBE FRS 48 *Service Performance Reporting*, highlight any areas where additional support is needed to encourage consistent application, and for the assurance of these entities, as well as to provide information about the current state of sustainability reporting in Tier 1 and 2 PBEs in the public and not-for-profit sectors.

¹External Reporting Board. (2016). Public Benefit Entities’ Conceptual Framework. Retrieved from: <https://www.xrb.govt.nz/consultations/accounting-standards-open-for-consultation/closed-for-comment-archive/pbe-conceptual-framework/>

Methodology

The population of 223 public sector entities required to present Statement of Service Performance (SSP) were stratified into crown entities, councils, departments, and other public sector. A 20% sample was taken from each of these subcategories to ensure the sample representatively covered different types of public sector entities. This resulted in a total sample of 45 public sector entities.

All charities on the “All currently registered charities 13112023” spreadsheet provided by the XRB to the researcher, were sorted by total expenditure. Tier 1 charities were defined as those with total expenditure of \$30 million or greater and Tier 2 charities are those with total expenditure of between \$2 million and \$30 million. This resulted in a population of 115 Tier 1 charities and 1,135 Tier 2 charities. A 20% sample was taken from the Tier 1 and 2 categories to ensure the sample representatively covered the two charity tiers. This resulted in a total sample of 23 Tier 1 charities and 227 Tier 2 charities. Because the tier status was based on 2022 expenditure, some Tier 3 charities with expenditure over \$2 million in 2022 (but not in 2023) were included in the sample. It was decided that these would be kept in the sample. No subsequent adjustments were made to tiers to preserve the integrity of the sample.

The sample was sorted alphabetically. Substitutions were permitted when the annual report was not available. The substitution rule was that for any entity requiring substitution, the entity listed immediately below the entity that needed to be substituted was chosen. Substitutions were made for 19 of 45 public sector entities in our sample and 67 of 250 charities in our sample.

A summary of the sample for this project is provided in Table 1.

Sample	Population	20% sample
Public sector entities	223	45
Tier 1 Charities (>\$30m)	115	23
Tier 2 Charities (\$2m to \$30m)	1,135	227
Total	1,473	295

Table 1: Data sample for project 1.

Data collection

For the public sector entities, the data were collected from the entities’ websites (where available). For Tier 1 and Tier 2 charities the data were collected from the Charities Register (<https://register.charities.govt.nz/CharitiesRegister/Search>) using the charity’s registration number. Any charity or public sector entity without an assurance report was emailed to request one.

The variables collected for this project are listed in Appendix 1.

Data analysis

Financial and non-financial information for this analysis were manually collected from the annual accounts of each PBE. Data were captured in a spreadsheet. Approximately 26% of the public sector and charitable PBEs sampled here prepared consolidated financial and service performance information. For the purposes of this research, consolidated data were noted in the workbook but were otherwise treated equivalently to non-consolidated data. There were differences in the data collection process for public sector and charitable PBEs – these are described below.

Public sector information was collected first. Lessons from this process were implemented to improve the breadth of information collected from charitable PBEs. Financial performance information (e.g., revenue) were not recorded for public sector entities in their service performance information except where generating financial returns was the primary activity of the entity (e.g., an investment fund). Financial measures made up an insubstantial proportion of the total number of measures in the public sector and so their exclusion should not have significantly affected the conclusions reached in this analysis.

It was decided through internal discussions with a representative from the Sustainability Reporting team at the XRB that multiple measures within a sustainability category for public sector PBEs would be considered one measure. For example, water quality and volume of water processed would be denoted “water” and marked as one environmental measure. Because measures for each charitable PBE were copied directly into the data workbook, sustainability measures were not consolidated. This means that the number of public sector sustainability measures will slightly understate the true number of measures reported in comparison to charitable PBEs. Many public sector PBEs reported sustainability measures outside of the performance section of their annual report. These measures were still captured and included in the dataset as this was of interest to the Sustainability Reporting team. It was noted whether none, some, or all the sustainability measures were reported in the designated performance reporting section. The data reported outside of the performance reporting section was typically demographic, equitable outcome, or emissions data. PBEs occasionally listed measures with no data or noted that the measures had been discontinued. These measures were excluded during data collection.

The themes for sustainability information (see Appendix 2) were developed during the data collection process for public sector PBEs. It must be noted that the social sustainability information is subject to greater uncertainty than other data categories. Given the social role of charitable PBEs, it could be argued that most of their measures relate to social sustainability activities. Where performance measures overtly fit into the identified social themes, these were captured as social sustainability measures. On the other hand, if a charitable PBE reported a regular activity, such as number of breast screening sessions for a health clinic, these were not considered social sustainability measures – despite their social utility; rather they were directly related to the entities’ mission and activities.

When collecting SSP data for charitable PBEs there were several subjective judgements made. These concerned the availability and quality of contextual information and performance measures. A description of each subjective judgement is provided in Table 2 below.

Variable	Description
Context present in SSP	The researcher assessed whether context was provided in the relevant SSP section. Occasionally the auditor included an “entity information” page in the page range of their audit, and this page contained context. In this case, it was considered for this judgement.
Sufficient context in SSP section?	The researcher assessed whether the contextual information provided gave enough information to understand why the charitable PBE exists, what its main objectives are, and what it does.
Measures provided?	The researcher inspected whether at least one measure was provided in the SSP section.
Appropriate mix of measures?	The researcher judged whether the reported measures provide a good indication of how the charitable PBE performed with respect to

	its stated objectives and reason for being, and given the nature of the charity's operations.
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Table 2: Descriptions of subjective judgments made for charitable PBEs

Working definitions were required to categorise the measures according to the categories specified by the XRB at the outset of this project. The categories were activities, impacts, and outputs, and whether each was qualitative or quantitative. Social and environmental sustainability measures were also captured. Finally, financial information and descriptions are categories that were added during the charitable PBE data collection. Table 3 describes and illustrates the categories used for the performance measures.

Category	Description	Example
Activity - qualitative	Undertakings that an organisation or its customers did or performed, but which were reported in a way that could not be reduced to a numerical value.	Hosted thought leaders at an event.
Activity - quantitative	Undertakings that an organisation or its customers did or performed, and could be counted or reported in a numerical format.	the number of nurse consultations provided.
Impact - qualitative	The effect of the organisation's activities on others which was reported in a way that could not be reduced to a numerical value.	Verbatim feedback from patients.
Impact - quantitative	The effect of the organisation's activities on others which could be counted or reported in a numerical format.	Satisfaction rating (0 – 5) from customers.
Output - qualitative	Things that were produced or delivered by the organisation which were reported in a way that could not be reduced to a numerical value.	Published a Workforce Development Plan.
Output - quantitative	Things that were produced or delivered by the organisation which could be counted or reported in a numerical format.	Number of research papers published.
Environmental sustainability	Activities, impacts or outputs which have a clear link to improving the environment or increasing awareness around environmental sustainability.	Number of trees planted by volunteers.
Social sustainability	Activities, impacts or outputs which have a link to improving the health, equality, representation, or cultural capital within the community.	Number of family groups of refugees hosted.
Financial (<i>charities only</i>)	Measures relating to the income, expenditure, and funding sources for an organisation.	Revenue broken down by source.
Descriptions (<i>charities only</i>)	Written explanation of an achievement or completed project which conveys performance but is not easily categorised as an activity, impact, or output.	Long-form description of an initiative offered to customers.

Table 3: Categories used for performance measures

Findings

Reporting under PBE FRS 48: Service Performance Reporting

Public sector PBEs

All public sector PBEs reported performance measures. PBE FRS 48 requires public sector PBEs to report an appropriate and meaningful mix of performance measures and/or descriptions for the reporting period. Public sector entities reported an average (mean) of 63 performance measures. Thirty-eight (84.4%) public sector entities provided at least one environmental sustainability measure. The three most common environmental categories were emissions, waste, and trees. Of those reporting emissions, only two organisations (8%) reported data for all six categories of emissions specified under ISO 14064-1:2018, 40% reported categories 1-4, 20% reported against scope 1-3, with the remaining reporting either an unsegmented total emissions value or not clearly linking their emission types to the ISO 14064-1:2018 framework. Half of the organisations provided 2025 and 2030 emissions targets, and 40% specified that they had received a certification which involves an audit to verify their emissions data.

Thirty-nine (86.7%) public sector PBEs provided at least one social sustainability measure. The three most common social categories reported were demographic information, community outcomes, and partnerships with Māori. A breakdown of the public sector PBE measures by category be seen in Table 4 below (see Appendix 2 for detail on the social and environmental measures reported).

Measure type	Number reported	Percent of all public sector measures	Combined measure type	Number reported	Percent of all public sector measures
Activities – qualitative	277	9.8	Activities	1261	44.6
Activities - quantitative	984	34.8			
Impacts - qualitative	118	4.2	Impacts	999	35.4
Impacts - quantitative	881	31.2			
Outputs - qualitative	157	5.6	Outputs	401	14.2
Outputs - quantitative	244	8.6			
Environmental Sustainability	72	2.5	Sustainability	164	5.8
Social Sustainability	93	3.3			

Table 4: Count and percent of SSP measures reported by public sector PBEs (by category)

Activities were the most frequent category of measure reported by public sector PBEs. Notably, quantitative activities were more than three times as common as qualitative activities. Beyond this, public sector PBEs frequently reported impact measures. Impact measures typically involved feedback/ratings from members of the public – such as feedback to a Council from constituents on water quality – or from the respective Minister(s) of a public sector PBE. Social and environmental sustainability measures make up a small proportion of the total measures reported by public sector PBEs. Moreover, these were often reported outside of the SSP section of the annual report. This means that, while emissions or pay gap information may be reported, there was no assurance provided by the auditor over the veracity of that data.

Charitable PBEs

Ninety-five percent of charitable PBEs reported service performance measures. PBE FRS 48 requires these PBEs to report an appropriate and meaningful mix of performance measures and/or descriptions for the reporting period. The remaining 5% (13 charities) did not report any performance measures. Two charities provided SSP measures which were not included in the scope of the audit. The auditors did not provide a rationale for this scoping decision.

Charitable PBEs reported an average (mean) of 15 measures. Fourteen charities (5.9%) reported at least one environmental sustainability measure. Common environmental categories reported were waste, emissions, conservation, and trees. Ninety (38.1%) charities reported at least one social sustainability measure. The three most common social categories reported were demographic information, equitable outcomes, and housing accessibility. A breakdown of the charitable PBE measures by category can be seen in Table 5 below (see Appendix 2 for detail on social and environmental measures reported).

Measure type	Number of measures reported	Percent of all charitable PBE measures	Combined measure type	Number reported	Percent of all charitable PBE measures
Activities - qualitative	287	8.1	Activities	2,117	59.5
Activities - quantitative	1,830	51.4			
Impacts - qualitative	50	1.4	Impacts	407	11.4
Impacts - quantitative	357	10.0			
Outputs - qualitative	37	1.0	Outputs	583	16.4
Outputs - quantitative	546	15.4			
Environmental Sustainability	33	0.9	Other	450	12.7
Social Sustainability	245	6.9			
Description	24	0.7			
Financial	148	4.2			

Table 5: Count and percent of SSP measures reported by charitable PBEs (by category)

Table 5 shows that most measures reported by charities relate to activities carried out by the charity or its clients/customers. The remaining categories (impact, output and other) are represented roughly equally. Within each category type, quantitative measures are more common than qualitative measures.

There are slight differences in the proportion of measures reported by charitable PBEs when they are segmented by tier level. As can be seen in Table 6 below, activities predominate across all Tiers. Beyond this, there are noteworthy differences. Tier 1 charities report impact measures more often than both Tier 2 and Tier 3 charities. This typically occurs through surveys of the relevant client group. Robust surveys can be time consuming and expensive to conduct, especially if outsourced to a third party. It is therefore reasonable that impact measures would be less common among Tier 2 and Tier 3 charities. Interestingly, an inverse pattern is found for output measures. Outputs make up a

third of all measures reported by Tier 3 charities, and Tier 2 charities report slightly more output measures than do Tier 1 charities.

	Tier 1 - N = 20	Tier 2 - N = 198	Tier 3 - N = 17
Measure type	Percent	Percent	Percent
Activities	52.6	60.5	57.0
Impacts	17.9	11.1	3.5
Outputs	11.8	16.1	33.7
Other	17.7	12.4	5.8

Table 6: SSP measures reported by charitable PBEs across each tier level (by category)

An important expectation of PBE FRS 48 is that PBEs provide an appropriate and meaningful mix of measures. Beyond just providing insight into what an entity has delivered, these measures can be reflective of the entities mission and values. Of the charitable PBEs samples, 190 (80.5%) were judged by the researcher to have provided an appropriate mix of measures in relation to their stated goals and the nature of their organisation. Forty-two (17.8%) were judged to have provided an inadequate mix of measures. PBE FRS 48 also notes that PBEs should not provide an overabundance of information which makes it difficult for the reader to understand of what the PBE has done. Four charitable PBEs (1.7%) were judged to be at risk of having provided too much information.

To gain insight into the performance of a charitable PBE, one must first know the context within which it operates. This may include its mission, its values, and the reason for its inception. Without an appropriate understanding of the nature of the charity, a reader cannot assess performance. For example, a given charity may report good return on investments for the properties it owns. On its face, this may appear to be a demonstration of good performance. However, if one comes to learn that the charity exists to provide food to the homeless, this may render the investment information less valuable. Instead, one would want to see information on the number of food packages delivered to determine whether the charity is operating in line with its mission.

Twenty-three (9.2%) charitable PBEs did not provide context for their organisation within the SSP section. Of the 227 (90.8%) that provided context, 193 (85%) were judged to have provided sufficient context which gives members of the public an understanding of why the charity exists, what it aims to achieve, and the types of activities it undertakes. Thirty-four charities (15%) were judged to have not provided enough information to contextualise its existence for a member of the public unfamiliar with the charity.

Relationship between size of PBE and number of measures reported

It was previously unknown whether there is a relationship between the size of a PBE and the number of measures it reports. This research sought to answer that question. Regarding size, there is no definitive metric as to what constitutes a large PBE. One could argue for separate individual factors such as number of full-time equivalent employees, amount of funding, complexity of operations, expenditure, revenue, or some composite of these. However, not all data were readily available. In this case, we have taken expenditure as a proxy for size.

A Pearson's correlation coefficient was calculated for all PBEs (charities and public sector) in our sample that reported at least one SSP measure. The data suggest a weak positive relationship ($r(279) = 0.35, p < .001$) between the size of an entity and the number of SSP measures reported. This

means that knowing the size of the PBE provides some information about how many SSP measures it is likely to have. While this may be useful for predicting which entity would report more measures when considering two PBEs with a substantial size difference, there would be many exceptions to the “bigger means more” conclusion – especially as the size gap between PBEs diminishes. Another way to interpret these data are that the size of an entity explains roughly 12% of the variance in the number of measures reported. This means that more than 85% of the variability in the number of measures reported remains unexplained. A scatterplot of the data is available in Figure 1.

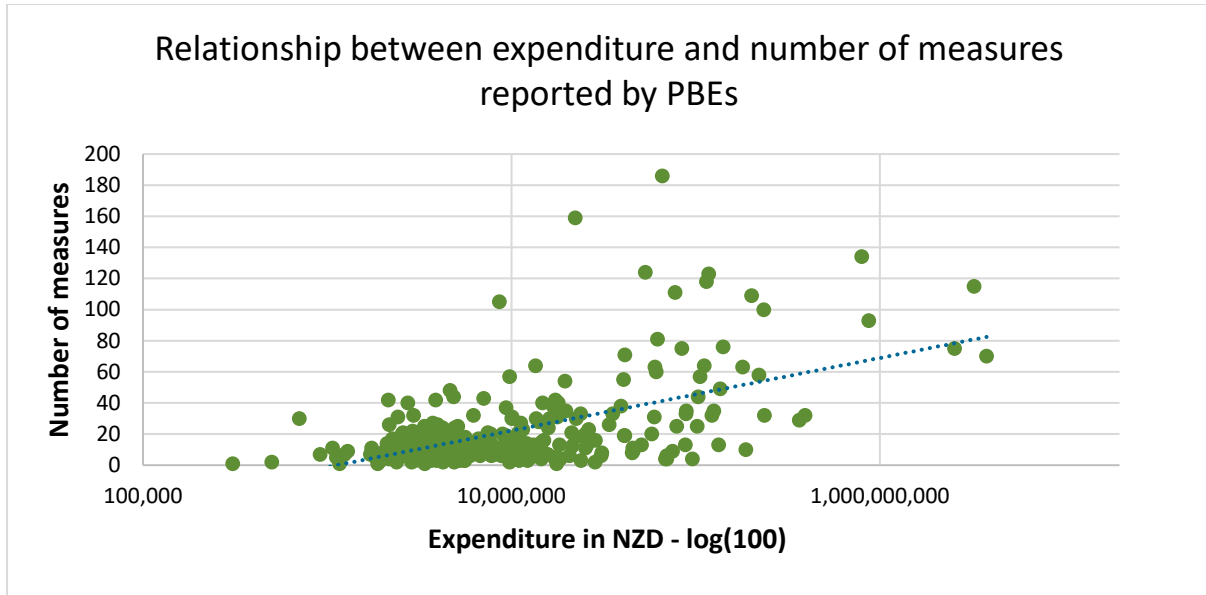


Figure 1: Scatterplot showing the number of measures reported by a PBE plotted against its 2023 expenditure

The data in Figure 1 includes all PBEs (charitable and public sector) in our sample with at least one performance measure. Expenditure is reported on a logarithmic scale. A linear plot was unsuitable given the large range in expenditure data. The dotted line represents the logarithmic line of best fit.

Assurance of service performance reporting

Auditors and audit standards

Assurance provides stakeholders with confidence in the veracity of the information presented. Organisations which provide independent assurance over the annual accounts of charities vary in their size and familiarity to potential readers. The data collected as part of this research included the organisations providing assurance to charities over their annual accounts. Figure 2 shows that nearly half of the auditors engaged by PBEs in our sample were mid-tier. Approximately 16% of PBEs were audited by Big Four audit firms. Just over one-third of PBEs were audited by organisations outside of the mid-tier and Big Four.

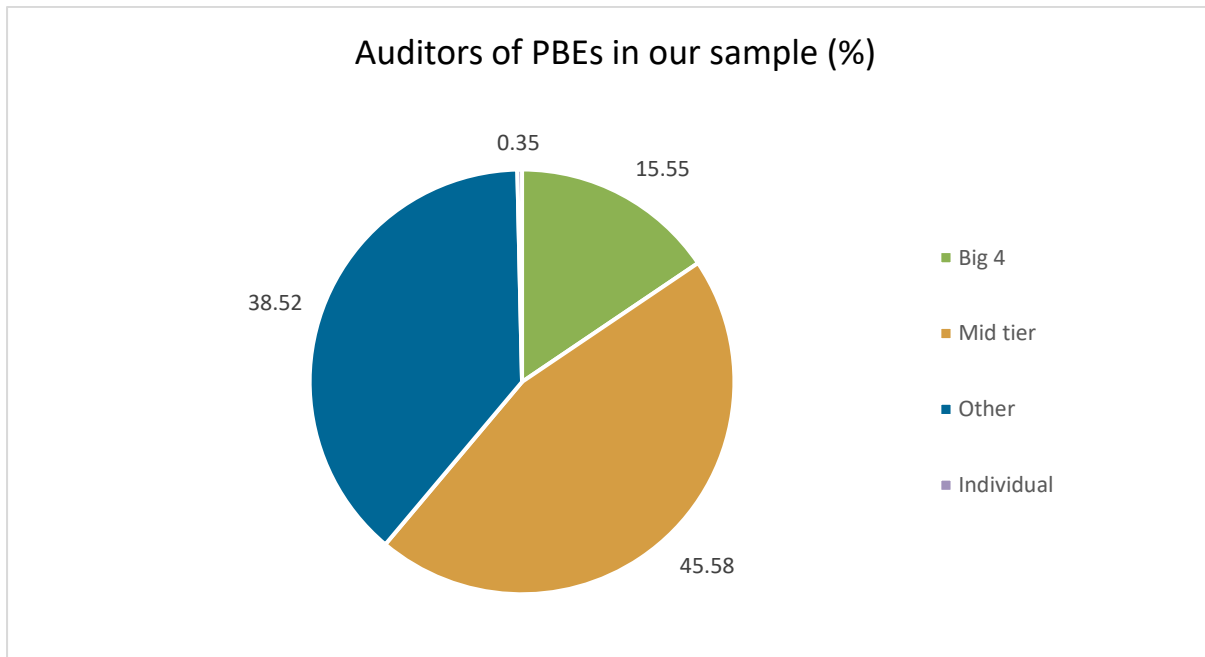


Figure 2: Organisations that completed audits for PBEs in our sample

The auditors of all 45 public sector entities used the Auditor-General's Auditing Standards. Two auditors of public sector PBEs used additional auditing standards (ISAE (NZ) 3000 (Revised), & ISAE (NZ) 3410) alongside the Auditor-General's Auditing Standards. There was a range of standards referenced by the auditors of charitable PBEs in their reports – see Figure 3 below. Auditors for 92% of charitable PBEs used the International Standards on Auditing (New Zealand). Fifty-nine audit reports (25%) used International Standard on Assurance Engagements (New Zealand) 3000 (Revised). Fifty-six percent (133 audit reports) used New Zealand Auditing Standard 1. Two audit reports referenced atypical standards. One referenced the Australian Auditing Standards and Australian Charities and Not-for-profits Commission Act 2012, despite being a New Zealand registered charity. The other case pertains to a Tier 3 charitable PBE which appeared in our sample and that, appropriately for its 2021 expenditure level of around \$600k, received a review rather than an audit. This report referenced International Standard on Review Engagements (New Zealand) 2400.

A substantial majority (90.1%) of public sector and charitable PBEs received unmodified audit opinions. Twenty-eight (9.9%) received some kind of modified audit opinion. Of these, 26 received a qualified opinion, with one receiving a disclaimer of opinion and one receiving an adverse opinion. The 28 modified opinions comprised 15 for reasons related to financial information, 11 related to SSP information, and two which concerned both financial and SSP information. The primary reason cited for a modified opinion regarding the SSP was the lack of reliable records or appropriate systems to capture data. Ultimately, this can be reduced to the auditor having insufficient evidence available to form an opinion.

Three PBEs received audit reports containing a Key Audit Matter (KAM). Of these, only one related to the SSP. Twenty-five PBEs received audit reports containing an Emphasis of Matter (EOM). Of these, four were because of the SSP. More specifically, three were the result of greenhouse gas emissions data being subject to uncertainty, with the fourth assurance provider citing a lack of prior year SSP information due to inadequate systems in the PBE. Fifteen of the 21 financial EOMs cited the uncertain financial impact of the three waters reform.

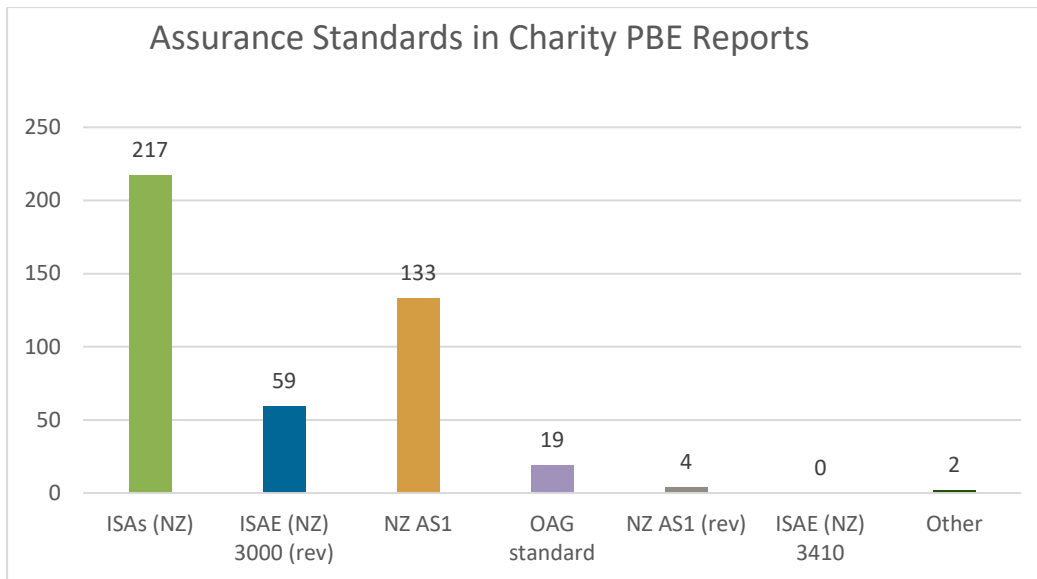


Figure 3: Breakdown of assurance standards referenced by auditors of charitable PBEs

Audit costs

We were interested in understanding changes in audit costs. Across both public sector and charitable PBEs, 189 (64%) experienced an increase in audit costs in 2023 over the costs in 2022, 50 (17%) experienced a decrease, and 9 (3%) reported no change. It must be noted that 47 (15.9%) did not disclose their audit fees. The average change in audit costs for all PBEs that disclosed their audit cost was an increase of \$8,364 between 2022 and 2023. When looking at charitable PBEs specifically, the increase was \$4,766 on average. For public sector PBEs there was an average increase of \$25,047. For a small number of charities, general accounting costs and the financial statement audit costs were not separated. Where this occurred, the combined value was taken as the audit cost.

The current analysis does not account for expected year-on-year increases in service costs and so we cannot attribute the increase in audit costs to time spent auditing service performance information. This causal inference would require (at minimum) comparing the change in cost identified here to prior trend information. While some of the cost increase will be a result of increased resources needed to provide assurance over service performance information, a more extensive analysis is needed to estimate the proportion of the change accounted for by this factor.

Other observations

Reporting targets for SSP measures

Public sector PBEs routinely provided a target value for their SSP measures. This enables the reader to understand the organisation's expectations for its own performance. Without targets in place, it is difficult for a reader to know what level of a given activity or output is considered "good" performance. Public sector PBEs are proactive in providing this additional information. Charitable PBEs rarely provided target values in relation to SSP measures. Only 14 (5%) of the entities providing SSP measures also disclosed target values.

Listing activities rather than providing a numerical value

There were charitable PBEs whose SSP sections included lists of activities it had completed – for example: completing a governance review, establishing a data strategy, publishing a thought paper, or hiring someone for a key role. While these are not measures which can be compared year on year, they do communicate organisational achievements in a given year. Comparability between entities' reporting of activities/outputs was reduced when, for example, one organisation provided a metric for the number of thought papers published, while another listed each publication out individually. The approach to data collection in this analysis was to record the measures at the level they were reported (though there were some exceptions).

Performance information outside of the SSP section

It was common for public sector PBEs in our sample to provide performance information outside of their audited SSP section. As noted earlier, this was often social or environmental sustainability metrics, but in some cases activities or outputs were reported outside of the SSP section. Case studies and verbatim feedback were another descriptive aspect of performance which was regularly provided outside of the SSP section for public sector PBEs. While this may have been an appropriate editorial decision in many cases, there is room to include this information within the audited SSP section as it does convey valuable performance information.

Disclosure of judgements

Disclosure of judgements were not systematically captured as part of this research. After data collection had finished, the researcher reconsidered a sub-sample of 12 charitable PBE accounts to gain an indication of how common disclosure of judgements were. This sub-sample was generated by selecting every 20th charitable PBE from the spreadsheet. Of the 12 inspected, only two contained disclosure of judgement information. While this may underestimate the true rate of reporting of judgement information, it confirms the researchers experience during data collection whereby judgement information for SSP measures within the annual accounts was not common. No public sector PBEs were sampled for this exercise.

Lack of comparative performance measures

There were four charities that did not report any prior year comparative information for their SSP measures. In some cases, it seemed reasonable to exclude comparative information (e.g. when providing descriptive information or listing initiatives completed). However, these four were charities which provided quantitative metrics of performance for 2023 but not 2022. The audit report made no comment about the lack of comparatives.

Discussion

As outlined, this research considered both Tier 1 and 2 PBEs' reporting of service performance information and the assurance reports they provided. This analysis reveals that public sector PBEs report four times as many SSP measures as charitable PBEs on average. Overall, there was a weak positive relationship between the size of an organisation and the number of measures it reports. A small proportion of the variability in number of measures reported between charitable and public sector PBEs is therefore explained by public sector entities typically being larger than charitable PBEs. Nevertheless, this difference may also be a consequence of the longstanding requirement of public sector entities to formally report on its performance through other channels and the relatively recent mandating of service performance reporting for Tier 1 and 2 charitable PBEs.

All PBEs preferred quantitative over qualitative measures for their SSPs, although these do not guarantee comparability between entities and across sectors. There may be intra-entity comparability, but this research was not longitudinally scoped to ascertain whether this was so. Regarding measure types, while one in three public sector PBEs measures were impact focussed, just one in ten measures were impact focussed for charitable PBEs. Public sector PBEs often gained survey feedback from constituents, respective Minister(s), and customers or other stakeholders which resulted in many impact measures. In contrast, charitable PBEs that aspired to higher levels of impact reporting were typically those in Tier 1, underpinning the argument that such surveys may be too costly for smaller entities. Thus, smaller charitable PBEs reported more output measures than their larger counterparts. While measures of activities predominated in the SSP for both charitable and public sector PBEs (comprising 59.5% of charitable PBEs' SSPs and about 45% of those from the public sector sample), a slightly higher proportion of the number of measures reported by charitable PBEs were categorised as being sustainability measures (7.8% and 5.8% respectively). However, while around 85% of all public sector PBEs reported some sustainability measures, only about 40% of charitable PBEs did so.

Of those public sector PBEs reporting emissions, only two organisations (8%) reported data for all six categories of emissions, 40% reported categories 1-4, 20% reported against scope 1-3, with the remaining reporting either an unsegmented total emissions value or not clearly linking their emission types to the ISO 14064-1:2018 framework. Half of the organisations provided 2025 and 2030 emissions targets, and 40% specified that they had received a certification verifying their emissions data.

For the financial year ending in 2023 all service performance information for Tier 1 and Tier 2 PBEs was required to be audited. Despite this, two audit reports excluded the SSP from the scope of their audit and 13 charitable PBEs did not report any SSP measures and hence assurance over SSP information was not provided in these entities' audit reports. All audit reports of public sector PBEs referenced the Office of the Auditor General's Standards. A substantial majority of auditors of charitable PBEs were guided by the ISAs (92%) and NZ AS 1 (47%). Twenty-eight (9.9%) of PBEs in our sample received modified audit opinions, 13 of which related to SSP. Furthermore, two PBEs received audit reports containing Key Audit Matters (one because of SSP), and 25 audit reports contained emphasis of matters (four because of SSP). Audit costs increased for both charitable and public sector PBEs by an average of \$8,364 between 2022 and 2023. Despite this trend, 50 PBEs (17%) experienced a decrease in audit costs.

Overall, service performance reporting in the public sector was judged by the researcher to have been to a high standard. All public sector PBEs in our sample provided a diverse range of measures

and many actively measured the impact of their work. The majority of charitable PBEs provided context and performance measures, but in many instances this information was judged to be inadequate as it did not give the reader a reasonable understanding of the mission and objectives of the charity against which its performance could be evaluated.

Ares for consideration for public sector PBEs

The expected outcome of this project was to identify areas where additional support is needed to encourage consistent application of PBE FRS 48. For public sector PBEs, the primary consideration is whether sustainability information and qualitative descriptions (case studies, verbatim feedback etc.) would be better placed within the Statement of Service Performance section of their annual report or not. Most public sector PBEs which presented emissions data and equality statistics reported this outside of the audited performance section.

Public sector PBEs employed various labels to denote service performance sections, with information occasionally dispersed across multiple sections in their reports. For example, one provided a statement of intent section and then a statement of performance. Both sections contained measures, and both were included in the audit of performance. Another provided measures under a strategic intentions section and then separately under a statement of performance section. Finally, one public sector PBE reported performance information across five different sections of the report. Consistency with respect to where information is placed and how it is labelled will improve the accessibility of the performance information and make it easier to compare information between years and across entities of a similar nature.

Areas for consideration for charitable PBEs

There are four areas which require attention to improve the consistency and effectiveness of performance reporting by charitable PBEs. The four areas are noted here and expanded upon below:

- 1) Clarifying expectations or providing examples for describing the nature of the charity, its missions and objectives, and where contextual information should be placed;
- 2) Further defining what constitutes an appropriate mix of measures which reflect the mission and objectives of the charity;
- 3) Stating expectations or providing examples regarding the information that should be communicated in a disclosure of judgements section, and where this should be located;
- 4) Communicating the expectation that measures should be explained where necessary so that they can be interpreted by unfamiliar readers, and that a glossary of abbreviations or acronyms used could also assist users.

Although most charities provided a reasonable level of context, around 23% provided either insufficient context or none within the service performance section of the report. Because performance is always tied to some outcome or goal, contextual information is necessary for the reader to evaluate whether an organisation is performing effectively or ineffectively. Many charitable PBEs provided a broad or vague description of their organisation and omitted details regarding what exactly the charity does. For example, an entity could state that it provides support for people recovering from mental illness in the community and aims to meet needs and exceed expectations. While this is useful, more specific information around what the charity does and its key outcomes for patients are needed for the reader to decide what measures they would expect to see, and whether the measures relate to the outcomes the organisation is trying to achieve (e.g., a reduction in symptoms, achieving independent living, obtaining paid work etc.).

Having set the scene by describing the charity and its objectives, the measures reported should flow logically from the contextual information. This will allow the reader to determine whether an

organisation is operating in line with its mission and achieving its objectives. There were charities which provided good context and described several objectives, but then did not disclose an appropriate mix of measures for the reader to assess whether all the stated objectives were being met or in progress. One useful approach taken by some was to number the objectives and cite these next to the relevant measure. Although this approach may not work for all charitable PBEs, they should consider whether the measures they are reporting can be linked back to the context provided and whether these measures are a satisfactory representation of their performance.

PBE FRS 48 requires that PBEs disclose the judgements that have the most significant effect on the selection, measurement, aggregation and presentation of service performance information reported. Observations made during this research suggest that charitable PBEs are not regularly describing their judgements as to why they are presenting a given set of measures. Finally, it may be advisable to encourage PBEs to present these judgement disclosures within the service performance section (rather than the accompanying notes) to increase the accessibility and cohesiveness of the performance report.

During data collection, it was noted that charitable PBEs provided measures that incorporate acronyms or abbreviations, or related to names of work programmes that readers would not be familiar with. PBEs should be encouraged to provide a brief description of their measures, particularly when they relate to technical nomenclature used in a specific area of operations such as a clinical setting. Moreover, a glossary which expands upon acronyms and abbreviations would further improve the accessibility of performance information for readers.

Concluding remark

This analysis sought to understand how PBEs applied the relatively new standard – PBE FRS 48: *Service Performance Reporting*. For charitable PBEs there were pockets of excellence, but many charities did not adequately provide an appropriate level of context and a sufficient mix of measures to assess performance. This analysis has unearthed several findings which should help the XRB in its work moving forward.

Appendices

Appendix 1

List of variables collected for as part of this project.

Variable name	Description
Name of charity	Name of the entity
Reported Tier	Tier reported in the annual report
Alignment	Does the Tier align with expenditure level for most recent two years?
Current year total expenses	Total expenses value collected from annual accounts
Total expenses prior year	Prior year expenses value collected from annual accounts
Audit cost this year	Cost for current year audit of financial statements from annual accounts
Audit cost prior year	Cost for prior year audit of financial statements from annual accounts
Audit report present?	Was the audit report filed with their annual report?
Standard format?	Does the report cite expected standards?
Summary of non-standard format	Explanation of the above if applicable
Modification present?	Was the audit report modified?
Modification type	Was it an adverse opinion, disclaimer of opinion, or qualified opinion?
Modification detail	Reason(s) for modification
Modification category	Was the modification for financial or non-financial reasons, or both?
Key Audit Matter?	Was there a Key Audit Matter(s)
Key Audit Matter category	Was the Key Audit Matter for financial reasons or non-financial reasons, or both?
SSP issues?	Describe statement of service performance issues listed in Key Audit Matter if applicable
Emphasis of Matter?	Was there an Emphasis of Matter(s)?
What was emphasised?	Description of what was cited in the Emphasis of Matter
Emphasis of Matter regarding SSP?	Did the Emphasis of Matter relate to statement of service performance information?
ISAs (NZ)	Were the International Standards on Auditing (New Zealand) cited in the audit report?
ISAE (NZ) 3000 (Revised)	Was the International Standard on Assurance Engagements (New Zealand) 3000 (Revised) cited in the audit report?
NZ AS 1	Was the New Zealand Auditing Standard 1 cited in the audit report?
NZ AS 1 (Revised)	Was the New Zealand Auditing Standard 1 (Revised) cited in the audit report?
ISAE (NZ) 3410	Was the International Standard on Assurance Engagements (New Zealand) 3410 cited in the audit report?
OAG standards	Were the Office of the Auditor General's standards cited in the audit report?
Other assurance standards	Description of other audit standards used
Ethics standards	Which, if any, ethics standards were cited in the audit report?
Assurance provider	Which organisation carried out the assurance? If the assurance was performed by an individual, their name and qualifications were recorded
Outputs quantitative	The number of quantitative output measures reported by each PBE
Outputs qualitative	The number of qualitative output measures reported by each PBE
Activities quantitative	The number of quantitative activity measures reported by each PBE
Activities qualitative	The number of qualitative activity measures reported by each PBE
Impact quantitative	The number of quantitative impact measures reported by each PBE
Impact qualitative	The number of qualitative impact measures reported by each PBE
Financial (<i>charities only</i>)	The number of financial measures reported by each charity

Description (<i>charities only</i>)	The number of descriptive measures reported by each charity
Environmental sustainability measures	The number of environmental sustainability measures reported by each PBE
Environmental sustainability type	Which environmental theme does the measure fit into?
Social sustainability measures	The number of social sustainability measures reported by each PBE
Social sustainability type	Which social theme does the measure fit into?
Location of sustainability reporting	Were none, some, or all the social and environmental sustainability measures reported inside the Statement of Service Performance section?
Context present in SSP (<i>charities only</i>)	Was context provided in the Statement of Service Performance section?
Sufficient context in SPP? (<i>charities only</i>)	Does the contextual information provided in the Statement of Service Performance section provide enough information for the researcher to know why the charitable PBE exists, what its main objectives are, and what it does?
Explanation (<i>charities only</i>)	If the contextual information was considered insufficient, what was the rationale for this judgement?
Measures provided	Were one or more measures provided in the statement of service performance section?
Appropriate mix of measures?	Do the measures provide a good indication of how the charitable PBE performed with respect to its stated objectives and reason for being, and given the general nature of the charity's operations?
Explanation (<i>charities only</i>)	If the mix of measures was considered insufficient, what was the rationale for this judgement?
Notes	General observations or peculiarities identified within the annual accounts

Appendix 2

Breakdown of social and environmental sustainability measures reported

	Charitable PBEs		Public sector PBEs	
Social theme	Count	Percent of social sustainability measures	Count	Percent of social sustainability measures
Community health	5	2.0	-	-
Community wellbeing	40	16.3	20	21.7
Cultural competency	10	4.1	10	10.9
Demographic	46	18.8	26	28.3
Equitable outcomes	43	17.6	5	5.4
Ethnic diversity	8	3.3	-	-
Food distribution	15	6.1	-	-
Housing	41	16.7	8	8.7
Partnership with Māori	12	4.9	11	12.0
staff wellbeing	11	4.5	5	5.4
Volunteering	8	3.3	2	2.2
Other	6	2.4	5	5.4

	Charitable PBEs		Public sector PBEs	
Environmental theme	Count	Percent of environmental sustainability measures	Count	Percent of environmental sustainability measures
Climate action	5	15.2	-	-
Conservation	5	15.2	-	-
Electricity	2	6.1	2	2.9
Emissions	5	15.2	25	35.7
Environmental action	3	9.1	-	-
Sustainable practices	1	3.0	-	-
Trees	5	15.2	5	7.1
Waste	6	18.2	18	25.7
Water quality	1	3.0	17	24.3
Biodiversity	-	-	3	4.3