

External Reporting Board
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Exposure Draft Review of Service Performance Information

Thank you for the opportunity to comment on the Exposure Draft Review of Service Performance Information (ED). Overall, I am supportive of the New Zealand Auditing and Assurance Standard Board's proposed requirements in the ED. In this submission, I would like to focus on the assessment of appropriate and meaningful, which may relate to the other aspects, e.g. understanding the service performance information reported.

In the following section, I provide general comments on not-for-profits, particularly charities, rather than public sector Public Benefit Entities. The views expressed in this submission are my own personal views and do not reflect the views of my organisation.

If you wish to discuss any matter regarding this submission, please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Cherrie Yang'.

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Assessment of Appropriate and Meaningful

- 1) Do you agree that the requirement to consider “appropriate and meaningful” are appropriate for a review engagement?

It is perhaps necessary to be consistent in introducing the term ‘appropriate and meaningful’ with other relevant standards applicable to NFP PBE, such as NZ AS1, when developing a new standard. However, I have some concerns about the potential use and interpretation of the term based on my prior and current research.

First, determining the appropriateness and meaningfulness of performance measures and other service performance information is highly subjective and, at times, ambiguous for both charity preparers and assurance practitioners. These issues create challenges in developing and assessing performance measures and aligning understanding between charity preparers and assurance practitioners. Variations in interpreting ‘appropriate and meaningful’ may empower preparers to push back against assurance practitioners’ inquiries when disagreements arise, potentially leading to a rubber-stamp approach to the review engagement. This concern is not without sufficient ground. Our prior research¹ on Tier 3 NZ charities identified several issues with reporting service performance information, such as insufficient, irrelevant, and insignificant outputs, as well as outcomes identical to missions. None of these issues indicates ‘appropriate and meaningful’. However, our study shows that assurance practitioners were reluctant to issue qualified reports, demonstrating a high tolerance when determining whether the service performance information was ‘appropriate and meaningful’.

Second, when identifying and reporting service performance information, charities may have their own preferences and methods. Some may cover different aspects of strategic objectives and missions, while others merely focus on the progress of specific projects or a single service area. Given the varying reporting scope, it is difficult for assurance practitioners to judge the completeness of performance measures and other service performance information. Our preliminary research findings based on Tier 1 and Tier 2 NZ charities suggest that many ‘appropriate and meaningful’ measures are excluded from statutory service performance reporting but are included in other channels, e.g. annual reports and websites. This may be due to the cost and time required to assess the evidence and a preference for verifiable quantitative data. While the level of assurance effort differs between a review and an audit, the subjectivity and ambiguity in determining and assessing appropriate and meaningful performance measures and variations in reporting scope remain similar in both contexts.

- 2) Do you agree that the use of the different verb to “consider” rather than “evaluate” is clear and will promote consistency in practice?

While the term ‘consider’ indicates less effort than ‘evaluate’, the extent to which an assurance practitioner should ‘consider’ whether service performance information is ‘appropriate and meaningful’ can vary significantly. Therefore, I do not believe the wording change will promote consistency in practice.

¹ Please note the research sample contains more audit than review. The research publication is attached to this submission.

Our research on Tier 3 charities found that assurance over service performance information appeared peripheral and was potentially considered less valuable than the financial statement audit or review by charities and assurance practitioners. Therefore, changing the term to ‘consider’ may further encourage a compliance mindset and devalue the development and reporting of ‘appropriate and meaningful’ service performance information.

Given that the External Reporting Board is proposing the new standard and holds a significant position in the sector, I feel this is an important opportunity to share these concerns while at the same time, I understand that these issues may not be solved by a single organisation nor by this proposed standard. Therefore, in addition to raising the concerns, I propose some possible solutions that I believe will require a collective effort across the sector.

Proposed solutions

To address the issues mentioned above, a collective effort is essential to:

- promote the importance of service performance reporting and assurance.
- improve the quality and transparency of service performance information.
- provide resources and training to support charities, especially the smaller ones, and assurance practitioners.

Charities should ensure their governing bodies have the knowledge and expertise to take responsibility for developing ‘appropriate and meaningful’ performance measures and building a system for recording and reporting service performance information. They could also engage professional advisors to assist in developing performance measures and reporting systems.

Funding providers should streamline their grant applications and acquittal requirements. They could also encourage and support, including financially, small charities in establishing systems and processes to collect and report ‘appropriate and meaningful’ service performance information.

Charity regulators should continue to profile best practices of charity service performance reporting by providing examples of ‘appropriate and meaningful’ service performance information on their website and other channels, e.g. newsletters and social media.

Accounting professional bodies should provide guidance on how to determine and assess ‘appropriate and meaningful’ service performance information from both charities’ and assurance practitioners’ perspectives. They could also offer advice on mediating disagreements between the two parties.

The list could continue to involve more parties willing to participate in this important initiative. I believe this collaborative approach is more likely to reduce reluctance around service performance reporting and assurance and shift mindsets to appreciate the enhanced credibility of service performance information. Over time, these efforts will help improve the assessment of ‘appropriate and meaningful’ service performance information.