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Chief Executive
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29 July 2016

Dear Sir/Madam

NZASB Invitation to Comment on Exposure Draft NZASB 2016-6 Service Performance Reporting

We are pleased to comment on the proposals set out in the NZASB Invitation to Comment *Exposure Draft NZASB 2016-6: Service Performance Reporting (ED)*.

EY is supportive of the NZASB's project to establish a specific standard for reporting service performance. The final standard will provide Public Benefit Entities (PBEs) with a framework for reporting non-financial information, aligning reporting with their primary objective to provide goods or services for a community or social benefit. We believe the proposals will improve accountability to users of financial statements as well as enhancing decision making within an organisation. EY also believes the proposals will improve consistency between entities with similar activities and between reporting periods.

We have provided responses to the specific questions below. However, our key concern with the proposals relate to the application of the requirements to not-for-profit entities and ensuring there is an appropriate balance between cost of implementation and the benefits. The NZASB acknowledges the expected increased cost for some not-for-profit organisations and we agree with this concern. In particular, smaller entities are likely to incur a significant burden relative to their funding levels.

The ED requires all Tier 1 and Tier 2 not-for-profit entities to report information as outlined in para 33 of the ED (subject to the qualitative characteristics and providing appropriate and meaningful information). We propose that the NZASB should consider whether the application of the final standard in the not-for-profit sector should provide a concession for Tier 2 entities. Specifically we propose a concession from disclosure of the impacts the entity has had on outcomes (para 33(c)).

Any impacts for Tier 2 entities are likely to be difficult to identify or lack a clear causal link. In accordance with para 44 of the ED, such disclosure is unlikely to be able to be reported in the majority of cases, yet a Tier 2 entity will be still required to go through the process of determining whether or not there is evidence of a link. This seems an unnecessary burden when the outcome is likely to mean disclosures are not able to be provided. Removing this burden would go some way towards reducing the cost of application of the proposals for smaller entities.

Please refer to the Appendix below for responses to the specific questions raised in the invitation to comment.

We have no other additional comments on ED NZASB 2016-6. Please do not hesitate to contact us should you have any queries. We also would be happy to meet with you to discuss our comments further.

Yours faithfully
Ernst & Young Limited

Simon O'Connor
Director

Appendix – Responses to ITC

1. Do you agree that the dimensions of service performance in the ED are a useful way of identifying the information to be reported by public benefit entities? If not, why not?

Yes, we agree that the dimensions of service performance in the ED are a useful way of identify the information to be reported. The dimensions are well established in the public sector and are often used in the not-for-profit space for those that have voluntarily disclosed performance reporting information. Therefore, we believe the terms are well understood and provide a robust basis for determining the information to be reported.

2. Do you agree that application of the qualitative characteristics and appropriate balancing of the pervasive constraints on information will result in appropriate and meaningful service performance information? If not, please explain why not and identify any alternative proposals.

The inclusion of the qualitative characteristics is useful in ensuring a broad, principles based, standard providing a structured basis for making judgements around disclosures. We believe including the qualitative characteristics and pervasive constraints ensures the standard has a robust framework but, given the broad nature of the disclosures for different entities and sectors, provides enough scope to enable relevant and useful information to be provided.

3. Do you agree with the use of the term “appropriate and meaningful”? If not, please explain why not and identify any alternative proposals.

We agree with identification of a general principle for disclosure of information based on what is ‘appropriate and meaningful’. Ensuring entities review their disclosures and ensure they are aligned with the qualitative characteristics, within the constraints, is important. But having the additional requirement to take a step back, and ensure the disclosures are appropriate to the particular entity and meaningful in that they tell the right story, adds another layer of consideration, which is useful when a standard is not prescriptive in its requirements.

We believe the wording in para 26 of the ED could be made clearer to identify ‘who’ the information should be appropriate and meaningful to. Currently this paragraph is not specific. Not identifying this as the ‘users’ of the financial statements could mean that the information provided is appropriate and meaningful only to the preparer or to one stakeholder and not others, or does not consider members or recipients of the services. We suggest either the paragraph is amended to make this clear or there is reference back to paragraphs 2 – 8 of the ED, which outlines who users are.

4. Do you agree with the proposed information to be reported? If not, please explain why not and identify any alternative proposals.

Yes, we agree with the proposed information to be reported. We understand the NZASB’s desire is to ensure the standard is not prescriptive and instead provide entities with the ability to use judgement around what disclosures are useful to the users of the financial statements.

However, we are concerned that, taken to the extreme, entities could conclude that they are not required to make any disclosures based on the qualitative characteristics and pervasive constraints. Therefore we suggest the final standard is clear that paragraphs 25 and 26 are general principles to use when applying the specific requirements of paragraph 33.

We note that the ED proposes that when determining what to disclose, the nature of an entity’s accountability for service performance will determine what it should report on. We believe some examples would be useful to identify the different types of accountability an entity might have and how that might impact what information is disclosed.

5. Do you agree that cross referencing to information outside of the service performance section of the general purpose financial reports should be permitted? If not, why not?

Yes, we are comfortable that information be cross-referenced under the requirements of para 53. We believe it is important to qualify this with the need to ensure the information can be easily identified and accessed and is based on the same terms as the financial report. Thus the inclusion of para 54 is useful to clarify this.

6. Do you agree with the proposed scope in relation to:

- a) *public sector public benefit entities with existing legislative requirements to report service performance information;*
- b) *public sector public benefit entities currently without existing legislative requirements to report service performance information; and*
- c) *not-for-profit public benefit entities?*

The NZASB would welcome information on the costs and benefits of the proposals in relation to specific types of entities. If you do not agree with the proposed scope, please explain why not and your views on what the scope should be.

We agree with the scope in relation to public sector PBEs. The government has an on-going process of determining which entities are to prepare service performance information and we do not believe this process should be reconsidered by the NZASB.

However, as noted in our cover letter, we are concerned that not-for-profit entities might be burdened with significant cost. We believe the NZASB's concerns in this area are justified.

We are unable to provide any reliable commentary on the estimated amounts of any expected incremental costs. However, we do note that the costs to comply with the draft standard could vary considerably across the population of NFP entities and would depend on the:

- nature and size of the NFP entity;
- complexity of the types of information they would need to report upon;
- current reporting capabilities of the NFP entity;
- complexity of any new or amended processes they would need to introduce to capture and report on such information; and
- reporting requirements that the NFP entity currently has to comply with.

Based on our experience, consistent with the introduction of any new framework, the costs would be more significant upfront in setting up the measurement and reporting framework and then would revert to a lesser annual cost thereafter. However, given the nature of such reporting requirements, for some entities, this will still increase their overall compliance burden and associated costs, which means more of the entities funding will need to be directed towards compliance.

We agree that the ED will ensure information is more comparable across entities and financial periods, as well as ensuring application across the board for all entities. However, for smaller Tier 2 entities we question whether this benefit is significant enough, relative to the cost of preparing the information.

Therefore, we believe Tier 2 entities should be given a concession from the full requirements of the proposals. We acknowledge that paragraph 44 of the ED provides relief from disclosing the impact that an entity has had on the outcomes it is seeking to influence when there is no evidence of a link between outputs and outcomes and any information would not meet the qualitative characteristics. However, coming to this conclusion will require a process and could involve significant costs, such as time spent considering whether and what types of evidence might exist, creating systems to collect information and time spent assessing the information. In many cases, entities are likely to conclude that reporting on impacts on outcomes is not feasible. In order to reduce costs, we propose a concession for Tier 2 entities to remove the requirement to disclose impacts on outcomes (i.e. paragraph 33(c)).

7. Do you agree that a two year implementation period would be appropriate?

Yes, we believe a two year implementation period is appropriate for adoption of the proposals, subject to our comments above for not-for-profit entities.

We also note, depending on when the final standard is issued, the NZASB should take into consideration other standards that may be required to be adopted for the first time, at or around the same time as these proposals. Any application date should be reconsidered closer to the time when the final standard is to be issued. We note additional time will also ensure the NZASB is able to provide useful guidance well before the application date.

8. Do you agree with the proposal to change the title of PBE IPSAS 1 Presentation of Financial Statement to Presentation of Financial Reports and the proposed amendments to that Standard? If not, please explain why not and indicate your preferred alternative approach.

Yes, we agree with the proposals to change the title of PBE IPSAS 1 and amend the standard as outlined in the ED.

9. What type of guidance should the NZASB develop to support entities preparing service performance information in accordance with the proposed standard?

We believe it will be important to establish guidance in the not-for-profit space on the application of the standard, as highlighted in our responses above. Specifically, we believe examples of the types of disclosures expected and how the information should be presented would be useful. Examples of the different types of entities applying the standard and typical performance measures would be useful.

10. Do you have any other comments on ED NZASB 2016-6?

We note the ED discusses the interplay with existing auditing guidance prepared by the NZAuASB on the application of ISAE (NZ) 3000 to audit or reviews of Tier 3 entities preparing a statement of service performance. We note that the OAG has specific guidance on auditing service performance reports (AG 4 *The Audit of Service Performance Reports*). We believe it will be important for the NZAuASB to ensure there is either consistency in the approach to auditing service performance reporting or alternatively make it clear they are not consistent and different sectors will be covered by different auditing standards.

We have no other specific comments on the ED.