Supporting Papers September 2017

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5 June 2017

Chief Executive
External Reporting Board
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Dear Sir/Madam

Comments on IASB DP 2017 – 1, Disclosure Initiative – Principles of Disclosure

I am making these comments as an individual investor and author of books on accounting matters. I am a retired fellow of the New Zealand Institute of Accountants (FCA).

My interest in DP 2017 – 1 is reinforced by the references in the Discussion Paper to "Better Communications" and also the Primary Financial Statements Research project.

My main interest therefore is in Section 3 – Roles of the Primary Financial Statements and the Notes. In particular I would support the opinions expressed in sections 3.1 to 3.24 that many readers pay more attention to the Primary Financial Statements than to the rest of the annual accounts. This suggests that the sequence of any discussion of disclosure should start with a total review of the primary statements followed by the notes needed to clarify and expand on them. This could lead inevitably to a total review of IAS -1.

I have covered my thoughts on the first part of such a review in my recently published book *The Accounting Jungle and How to Find Your Way Through It.* I enclose a copy which covers the whole topic in detail, together with working examples.

I am also sending you an email of these comments which has an electronic copy of the book as an attachment.

I hope you find this of interest. A copy of this letter and the book has been forwarded to the the IFRS Foundation, 30 Cannon Street, London

Sincerely

Bill Jamieson

Kia ora,

The greatest area of concern for me is what happens with tier 1/2 charities which have consolidated entities under the control rules, will they need to consolidate results? If so there will be double counting.
In our case we have:

1. Inc Society (Tier 2) who consolidates all entities below

2. Company (Tier 2) who consolidates all entities below

3. 30 Charitable Trusts + 1 company (All tier 3)

In our case for the top entity would we need to consolidate the results for the entities below, if so the results from the 30 charitable trusts will effectively be triple counted

Geoff

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Warren Allen FCA
Chief Executive
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Dear Warren

PBE FRS XX SERVICE PERFORMANCE REPORTING

Thank you for the opportunity to comment on the limited scope consultation on the above Standard. I believe the Standard in its current form captures the current best practice of performance reporting. It also allows for new forms of reporting to develop to enable Public Benefit Entities (PBEs) to communicate better their performance to users.

I would encourage all PBEs to report under this standard as soon as is practicable. I recognise that the NZASB has weighed the costs and benefits of an early mandatory adoption to decide on the January 2021 implementation date, but would prefer to see a two year instead of three year transition period. This will raise the quality of reporting much more quickly and increase its comparability as well. Two pieces of research I am involved in inform this view.

1. Completed cross-jurisdictional research with Danielle McConville from Queens University Belfast where we analysed one year's reporting from matched charities in Australia, New Zealand, the UK and US. It shows that under UK mandatory performance reporting, charities report more in the way of outputs, outcomes (societal and individual) and 'bad news', as well as provide more information to allow these data to be verified (i.e. explanations of how different measures were calculated). And the UK requirement is simply for charities to report on the public benefit they deliver (and the SORP's encouragement for larger charities to 'consider the difference they have made in reference to terms such as inputs activities, outputs, outcomes and impacts'). This encouragement makes a real difference to reporting.

2. Ongoing research being conducted with Janet Mack and Stuart Tooley from QUT in Brisbane considering three years of data from matched charities in Australia, New Zealand and the UK. Preliminary findings suggest that, due

to a lack of guidance, entities change the way they make narrative disclosures about volunteers year-on-year. There also appears to be no effort to standardise across the same entity in the three jurisdictions. Comparability is therefore lacking, making it difficult for GPFR users to really understand entities' performance. While comparability is already difficult in the performance reporting arena, it is necessary to encourage PBEs to use qualitative characteristics consistently to increase this reporting's usefulness.

I also suggest a minor wording change to the last sentence of paragraph 25 to match the ideas in the prior sentences. It could be changed to read: 'Examples of broad or longer-term effects include changes to these individuals' and groups' educational achievements or health, or changes to groups' or societal poverty or crime levels.'

Congratulations on the Standard, the Introduction and Basis for Conclusions which I believe spell out the need for this reporting and will assist PBEs to communicate their story to their users.

Regards

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Professor in Accounting
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12 July 2017

Warren Allen FCA
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Via email: submissions@xrb.govt.nz

Submission regarding Limited Scope review of ED NZASB 2016-6 Service Performance Reporting

Thank you for the opportunity to provide comments on your Limited Scope Review of your revised Exposure Draft NZASB 2016-6 regarding Service Performance Reporting. Attached are our comments from our review of the revised proposed accounting standard.

We are aware that the XRB may publish submissions on your website. We have no issue with this.

Any questions with regard to this submission should be referred to the writers Craig Fisher & Wayne Tukiri via (09) 367-1656 or craig.fisher@rsmnz.co.nz or wayne.tukiri@rsmnz.co.nz

Yours sincerely

Craig Fisher

C. R. Fisher
Audit Partner, Chairman

W.T. Tukiri

W.T. Tukiri
Associate Director - Audit & People

Background context regarding Service Performance Reporting

Our views in this and our earlier submission have been formed largely from our direct involvement in assisting clients and other stakeholders individually and in groups in matters relating to service performance reporting. This has included providing education regarding service performance reporting via seminars, workshops, and article writing. We have also been involved in assisting clients with the preparation of service performance reports as well as providing assurance over early adopters and Tier 3 entities' performance reports.

Overarching Observations

We strongly agree with the overall aim of requiring entity and service performance reporting and applaud the New Zealand developments in this area. Our view is that a more holistic level of performance reporting that this initiative will engender should be a very positive development for stakeholders seeking information about PBEs in New Zealand, and more generally for New Zealand society.

We believe service performance reporting should provide much more useful information for stakeholders and decision makers who in most cases do not have the power to require such information. Due to the service objectives of most PBEs we believe the information required by service performance reporting is generally much more important for assessing an entity's overall performance than just the financial statements.

We also note the strong parallels with the international movement towards requiring integrated reporting. As such, with the legislative requirement already in place in New Zealand for entity information and service performance reporting applying to some PBEs, we believe New Zealand has the opportunity to be an international leader and role model in this area.

However, while we see this as a significant opportunity to improve reporting in New Zealand for PBEs, we also do not underestimate the challenge that this new requirement will impose of some entities. From our experience with assisting clients to date we have found vastly different levels of ability, and desire, to provide service performance reporting. This is in terms of buy-in to the concept at the governance level, understanding the technical requirements, resource and capacity constraints within organisations, as well as whether the type of activities of the specific PBE lend themselves to ease of service performance reporting (e.g. where outputs and outcomes are not easily definable or attributed to a single entity in a multi-entity environment).

We have also already experienced first-hand the difficult situation auditors can be placed in when they are having to educate clients about the requirement for service performance reporting where client and/or their external accountant's awareness and knowledge is sadly lacking. We are also aware of some auditors very concerned about this new requirement. Accordingly, we support all efforts in raising awareness and promoting education for preparers and auditors. It is important that these initiatives also target governing bodies as their early engagement and buy-in to the concept is critical in ensuring that meaningful information is produced and reported. We have been urging philanthropic funders who we are in contact with to assist in this area in relation to assisting preparers, as good quality service performance reporting is in their best interests as well as being positive for the wider community.

Having said this, we have on the whole been impressed with how well many of the Tier 3 & 4 entities we deal with have quickly grasped the service reporting concept and made good initial attempts at their service reporting. A further observation is that entities themselves have been better at doing this than some chartered accountants assisting small charities in their reporting. i.e. the level of knowledge of the chartered accountants in some cases has been embarrassingly lacking.

As regards auditors, we believe it is important that they are given the tools and education to assist their clients, and especially so as not to squash this early stage initiative with a rigid overly strict compliance attitude. Specifically, we see the scenario that a plethora of qualified audit opinions, a possible outcome of risk adverse auditors, would likely be very detrimental to this emerging area.

Hence we suggest considerable care needs to be taken to strike an appropriate balance between requiring achievable information and not making this so hard to produce and audit that it causes bad-will and negates the positive intention. Failure for this new reporting to be embraced positively by the sector will result in information of much less use to wider stakeholders, and likely criticism of it being seen as a further compliance cost.

Your Question:

Taking into account the proposals in the 2016 ED, the comments received and the changes made in response to those comments, do you have any comments on the workability of the revised proposals or whether they would have any unintended consequences?

Overall, we believe that the decision to move to a higher principle based approach to be a sensible one. We expect that this greater flexibility in how to tell their story will be appreciated by preparers and the wider sector. In addition, we hope that this will encourage a positive reaction from the sector to this new requirement as well as greater innovation in reporting and communication to stakeholders.

We have the following main concerns with the revised proposed accounting standard.

Timing

We are concerned in relation to the likely effective date of the proposed service performance accounting standard. We understand this is proposed to be effective for periods beginning on or after 1 January 2021 (i.e. December 2021 year-ends). While we appreciate the logistics challenge of approval of a new standard, and the need to allow some implementation readiness period, we are concerned that some in the sector are likely to see this not needing to do anything until 2021. We believe this will be a lost opportunity for significantly improved reporting in the PBE sector.

We appreciate that early adoption before the mandatory date will be available once the standard is issued. However, our past experience of accounting standard changes would indicate that only a few are likely to voluntarily early adopt. We think a mandatory date that far out will be a significant lost opportunity to substantially improve the quality of PBE reporting in New Zealand. We have already seen some significant positives in improved stakeholder communication, clearer organisational focus, and a positive response from many funders to the Tier 3 and 4 PBE requirement for service performance reporting.

We also understand that one of the logistics concerns is the desire to ensure that the new SSP accounting standard and the related SSP assurance standard are effective at the same time. If this is the primary hold-up for earlier implementation we do not believe that it would be a significant problem if the SSP element of Tier 1 and 2 PBEs was not required to be audited for say 1 year. However, we appreciate that this may have legislative challenges.

Difference in terminology from the Tier 3 & Tier 4 requirements

While we appreciate the rationale to take the proposed accounting standard to a higher principles basis, we believe it is unfortunate that the terminology is now inconsistent between the proposed Tier 1&2 requirements and the Tier 3&4 standards. This is with the latter still referring to the terms Outcomes and Outputs. We also note subtle differences in the fundamental questions that the two standards are asking of preparers to answer.

We have already experienced some client confusion around service performance terminology and requirements when assisting a Tier 2 entity thinking about their own service performance reporting in the context of them assisting their Tier 3 subsidiary entities with output and outcome reporting.

We expect a possible unintended consequence could arise from a Tier 1 or 2 PBE trying to report on an outputs and outcomes basis by consolidating the service performance reports of multiple subsidiaries.

We appreciate that the NZASB is unlikely to want to disrupt the Tier 3 & 4 standards so soon after their issue and hence we are likely to just have to live with this situation. As such we suggest that some guidance material or education may be of assistance in this area.

Specificity of requirements from an audit perspective

We believe that the revised accounting standard may pose some challenges to auditors due to the very high level principles approach and the lack of strict defined criteria or a generally understood and agreed framework for auditors to assess reporting against. For example, it may be more challenging for the auditor to determine material omission of information (e.g. particularly where the entity's performance has not been positive). Without clear requirements or guidance within the accounting standard this may result in auditors being put in the difficult position of being unhappy with disclosure when the preparer may feel there is no compulsion to disclose from their interpretation of the accounting standard that they are following.

On balance, we believe that this is probably just a price to pay for a high-level accounting standard in an area that is by its nature more subjective and varied than areas normally covered by accounting standards. However, it is probably better that such a challenge is given to the likely smaller population of qualified auditors, rather than a greater challenge being imposed over the larger, and perhaps not always as technical accounting skilled (?), preparer population.

We do however see the requirement for preparers to disclose their critical judgements as regards service performance reporting to be vitally important in order to allow auditors to perform their work and to avoid unnecessary qualified audit opinions. We also believe some description of how materiality has been applied by preparers may also be required.

We appreciate the explanation of judgements to be disclosed in paragraphs 45 and 46 of the proposed standard and consider these helpful explanations. However, we have a remaining concern as to how the term "critical" will be interpreted by preparers and fear this may be open to potentially very wide interpretation by different preparers. Our concern primarily with this term is that some may take it as being a negative interpretation and hence may not be inclined to disclose otherwise important or significant information as they don't assess this as critical. Accordingly, we think this area will be one where practical guidance and examples may be most beneficial.

A further consequence or trade-off, is that the greater flexibility allowed to preparers will likely lead to reduction in comparability between entities operating in similar fields. This may also reflect different interpretations by different auditors as to what is acceptable under the standard. In an extreme case, this could raise the risk of auditor opinion-shopping.

We suggest consideration be given to any guidance and education to assist preparers with judgement disclosure. We also urge guidance and education be developed to auditors regarding how to approach the audit of this new and in some cases, challenging area of reporting.

Guidance

As noted above we believe that good practical guidance will be required if this important new standard is to be positively received and adopted and the benefits from this improved stakeholder communication is to be realised. Given the nature of the standard's subject matter we think it may be very beneficial to obtain the views of a range of preparers from the sector to obtain some first-hand feedback on their understanding and interpretation of what the standard is asking of them. We would be happy to assist in facilitating this if of value.

Appendix

About RSM in New Zealand

RSM in New Zealand is a leading provider in audit, tax and consulting services to commercial organisations, public sector entities, as well as having a specialisation in providing audit and assurance and services to the not-for-profit/charitable sector.

The RSM New Zealand group consists of the business advisory and tax operation, RSM New Zealand, and specialist audit and assurance firm, RSM Hayes Audit. With 21 partners and 140+ staff we operate from offices in Newmarket, Albany, Highbrook and Manukau. While based in Auckland we act for clients nationwide. In addition, RSM is a leading member of the NZ CA network of 29 accounting firms throughout New Zealand.

RSM in New Zealand is proudly NZ owned and operated and is a member of RSM International - the sixth largest international accounting network of independent audit, tax and consulting firms in the world.

RSM Hayes Audit is our dedicated audit practice, led by six specialist audit partners and currently has a full-time specialist audit team of approximately 50. We are a registered audit firm under the Auditor Regulation Act 2011 and currently have 6 licensed auditors. Our audit client base essentially represents a snap-shot of the New Zealand economy ranging across most sectors and entity types. This currently includes a range of smaller issuers, numerous SMEs, large private entities, state sector entities and a significant number of not-for-profit and charitable entities.

At RSM, we have taken, and continue to take, an active interest and involvement in standard setting in New Zealand with one of our audit partners being the former chair of the New Zealand Institute of Chartered Accountants Professional Standards Board and representing New Zealand internationally in assurance standard setting. He is now a member of the NZAuASB which is involved in developing guidance and standards for service performance reporting.

THE TREASURY
Kaitohutohu Kaupapa Rawa

File Reference: ST-4-2

14 July 2017

Recd.
14/7/17.

Warren Allen
External Reporting Board
P O Box 11250
Manners St Central
WELLINGTON 6142

Dear Warren

Service Performance Reporting – Limited Scope Consultation

We thank the NZASB for revising the Service Performance Reporting standard to reflect feedback from submissions on Exposure Draft 2016-6.

The Treasury doesn't have additional comments on the workability of the revised proposals and we don't currently foresee any unintended consequences from the proposals. Having a standard for service performance information is a significant new development and it has been a long awaited initiative for the public sector. It is therefore expected that lessons will be learned on how to apply this principles-based standard in the first couple of years of implementation. We believe that best practice will develop over time as entities come to grips with the requirements. We encourage the NZASB to schedule a post-implementation review to pick up lessons learnt, check that the standard is operating as intended and determine what, if any, changes may be needed to the standard.

We understand that a complimentary Auditing Standard for Service Performance reporting is currently being drafted. We believe it is critically important that this standard reinforces the flexibility available to agencies to report their service performance in the most appropriate way.

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The application of the Auditing Standard will also be important as we do receive feedback from agencies that a focus only on quantitative measures by auditors can be a barrier to providing service performance information that is useful for accountability and decision making purposes.

The Guidance, to be issued by the NZASB to assist with implementation of the Service Performance Reporting standard, is an opportunity to demonstrate the flexibility available to agencies to report their service performance in the way that best demonstrates the value that has been created through the delivery of a particular service. We often hear from agencies that they want examples of "what good looks like" and we encourage the NZASB to work with agencies and auditors to pull together a series of examples. We suggest that this guidance be updated as good examples emerge from application of the standard.

We look forward to continuing to work alongside NZASB to achieve better service performance reporting in the State sector.

Yours sincerely

Megan Taylor
Team Leader, Strategic Performance Improvement

CHARTERED ACCOUNTANTS
AUSTRALIA + NEW ZEALAND

21 July 2017

Kimberley Crook FCA
Chair
New Zealand Accounting Standards Board
PO Box 11250
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Wellington 6142

By email: submissions@xrb.govt.nz

Dear Kimberley

Service Performance Reporting – Limited Scope Consultation

Thank you for your letter dated 29 May and the opportunity to provide feedback on the limited scope review draft of the Service Performance Reporting standard (the “draft standard”). Service performance reporting is becoming increasingly prevalent, and we commend the New Zealand Accounting Standards Board’s (NZASB) efforts to establish a framework for such reporting in New Zealand. We acknowledge that the proposals have undergone significant revision and are now very different to Exposure Draft 2016-6 (“the ED”). We consider that, on the whole, the changes made reflect the views expressed in our submission on the ED as well as those conveyed by other parties.

We appreciate the difficulty in developing a standard which will apply to both the public sector and the not-for-profit (NFP) sector. There are a number of different service performance reporting requirements across these sectors, including those written into legislation and those set by funders. As such it is important to avoid introducing conflicting or potentially confusing requirements in the draft standard. We support the high-level principles-based approach taken in the draft standard to allow both public sector and NFP entities the flexibility to report service performance information in accordance with any existing requirements.

We welcome the flexibility encouraged by the draft standard and the fact that it does not prescribe the format of service performance information. Such flexibility will encourage entities to ‘tell their performance story’ in a way that is appropriate for that entity and as such will better meet user’s needs. The ability to report more specific information also aligns with one of the International Accounting Standards Board’s (IASB) key themes; *Better Communication in Financial Reporting*.

Against this backdrop of support, we have the following comments.

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Scope

Paragraph 3(b) refers to "*Tier 1 and Tier 2 public sector public benefit entities required by legislation to provide information in respect of service performance in accordance with generally accepted accounting practice (GAAP)".* The reference to GAAP will scope out some entities where legislation does not explicitly reference GAAP such as council-controlled organisations under section 68 of the Local Government Act 2002 and school board's under section 87 of the Education Act 1989. On this basis we recommend removing the reference to GAAP so that all Tier 1 and Tier 2 public sector public benefit entities required by legislation to provide information in respect of service performance must do so in accordance with the standard.

Qualitative characteristics

The flexibility permitted by the draft standard gives rise to the risk of biased reporting of service performance information. Paragraph 8 acknowledges that *"all qualitative characteristics may not be fully achieved, and a balance or trade-off between certain of them may be necessary*". In our view the qualitative characteristic of '*faithful representation'* is paramount – service performance information should always be complete, neutral and free from material error. Therefore we recommend that no trade-off be permitted for this qualitative characteristic.

Disclosure of judgements

The requirement to disclose critical judgements in paragraph 44 is essential as it provides the criteria for an assurance practitioner to evaluate the reported service performance information against when conducting an assurance engagement. These criteria also need to be available to the intended users to allow them to understand how decisions are made on what is reported and why. Therefore, we would be concerned if the requirement to disclose critical judgements was removed as a result of this limited scope consultation.

Guidance and illustrative examples

Reviews of Tier 3 and 4 charity Performance Reports have highlighted the challenges experienced in meeting the new reporting requirements for service performance information. Similar transitional issues were experienced when the public sector adopted service performance reporting two decades ago. As such, additional guidance would be well received. The factors included in paragraph 19 are a good starting point in this regard. In particular it would be useful to include an illustrative example where there has been a trade-off between the qualitative characteristics. Given its importance, we also recommend illustrative examples of disclosures of critical judgements.

Structure

The format of the PBE Standards generally include a 'Definition' section after the 'Scope' section. For consistency, we recommend inclusion of a 'Definition' section where the terms '*service performance information'* and '*appropriate and meaningful'* are explicitly defined*.* We note that '*service performance information'* has been described in paragraph 2 and this could form the basis for the definition. We also note that paragraph BC21 clarifies that the term *'appropriate and meaningful'* should be considered from the user's point of view. Paragraph 22 also provides discussion on assessing which performance measures are the most appropriate and meaningful. Both of these could be drawn upon in the development of a definition.

Trans-Tasman alignment

We note the Australian Accounting Standards Board (AASB) is also working on an accounting standard for reporting service performance information and has been working closely with the NZASB in developing the proposals. We encourage trans-Tasman harmonisation, where appropriate, in finalising the requirements of these standards.

Appendix A includes a number of editorial suggestions. Should you have any queries concerning the matters in this submission, or wish to discuss them in further detail, please contact Zowie Pateman (Acting Reporting Leader) via email at zowie.pateman@charteredaccountantsanz.com.

Yours sincerely

Liz Stamford
Head of Policy
Chartered Accountants Australia and New Zealand

Appendix A: Editorial suggestions

Draft standard reference	Explanation of suggested change
Paragraph 6	Insert *'holistic'* (ie 'Presentation of service performance information together with financial statements enables users to make *[holistic]* assessments of the entity's performance').
Paragraph 14	Change '*often*' to '*should*' (ie 'However, public benefit entities *[should]* have long-term service performance objectives'). Paragraph 15(a) requires entities to report contextual information about what it intends to achieve over the medium to long term so the proposed terminology appears to be inconsistent with this requirement.
Paragraph 17	Delete *'at its highest level of management or in the governance of the entity'* and the second mention of '*performance framework, theory of change or intervention logic'* We consider these references are superfluous and make the paragraph difficult to read.
Paragraph 20	Given the importance of the first sentence we support this being a black letter requirement.
Paragraph 28	Given the importance of the sentence *'If an entity reports on the cost of goods and services it shall provide a reconciliation between the expenses in the financial statements and the total goods and services costs reported in the service performance information'* we support this being a black letter requirement.
Paragraph 32	Replace '*An entity may'* with '*Where possible an entity shall'*
Paragraph BC5	Insert '*to*' (ie 'in order *[to]* address a gap in its PBE Standards').

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28 July 2017

Warren Allen
Chief Executive
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Dear Warren

Limited Scope Review Draft – PBE FRS XX *Service Performance Reporting*

We appreciate the opportunity to comment on Review Draft - PBE FRS XX *Service Performance Reporting* (the review draft).

Overall, we are pleased with the review draft. We think the review draft addresses many of the comments we made in our submission to the External Reporting Board (XRB), dated 28 July 2016, about Exposure Draft NZASB 2016-6 *Service Performance Reporting*.

As requested, we have considered whether the review draft is workable and whether it creates any unintended consequences. At a high-level, other than the proposed amendments to FRS 42 *Prospective Financial Statements* we think the review draft is workable and does not create any unintended consequences. We have some concerns about the proposed amendments to PBE FRS 42 *Prospective Financial Statements* because, in our experience, prospective service performance information is different to prospective financial statement information. We do not think that amending PBE FRS 42 *Prospective Financial Statements* as proposed, is the best approach to address matters relating to prospective service performance information.

We attach to this letter comments about the proposed amendments to FRS 42 *Prospective Financial Statements* and comments about the review draft that focus on improving some requirements and making some points clearer. Please note that our comments primarily focus on PBEs in the public sector.

We see real value in the NZASB conducting a post implementation review once the standard has been applied in practice for two or three years.

Our comments on the review draft and the proposed amendments to FRS 42 *Prospective Financial Statements* are a result of collaboration between my staff at Audit New Zealand and the Office of the Auditor-General.

If you have any questions about our submission, please phone Todd Beardsworth, Assistant Auditor-General, Accounting and Auditing Policy on 021 244 0727 or email him at todd.beardsworth@oag.govt.nz.

Yours sincerely

Greg Schollum
Deputy Controller and Auditor-General

The Limited Scope Review asked submitters to respond to the following question:

> ***"Taking into account the proposals in the 2016 ED, the comments received and the changes made in response to those comments, do you have any comments on the workability of the revised proposals or whether they would have any unintended consequences?"***

Our comments are as follows:

Consequential amendments to PBE FRS 42 *Prospective Financial Statements*

Prospective service performance information is different to prospective financial statement information.

Prospective financial statement information provides the best estimate of the future financial performance and position of an entity. Readers can then compare actual results against the prospective information.

In our experience, prospective service performance information provides targets and measures for what an entity is aiming to achieve, and this is not necessarily the best estimate of what the entity will achieve. Readers can then compare actual achievements against what the entity aimed to achieve.

This difference suggests to us that the characteristics of prospective financial statement information cannot necessarily be applied to prospective service performance information. We think the proposed amendments could result in unintended changes to the way that prospective service performance information is prepared in future.

In our view, the proposed amendments to PBE FRS 42 *Prospective Financial Statements* should not be made. We think the NZASB should carry out further work to determine how best to cater for prospective service performance information.

Output cost disclosure (paragraph 28)

It is important that performance information is integrated with financial information as set out in paragraph 28 of the review draft. We do not think there will be many situations where it is not practicable for entities to disclose output costs. We think that the bar for non-disclosure of output cost information should be set at a high level. Therefore, we consider that the wording of the review draft should be strengthened to <u>require</u> cost disclosures related to services or activities, unless it is impracticable to do so.

Cross referencing performance reporting information (paragraph 35)

Where cross referenced material forms part of the service performance report for a particular period, we think that information should be required to remain <u>static</u> as well as available. We would be concerned if cross referenced information was updated over time and the historical information lost.

(We are less concerned about cross referenced information that does not make up the service performance report.)

Material prior period errors (paragraph 43)

Paragraph 43 could be improved by stating that material numerical prior period errors should be corrected and accompanied by a narrative explanation of the error.

We are happy that narrative prior period errors are required to be explained.

Disclosure of judgements (paragraph 44 - 46)

Paragraph 45 defines critical judgements as "those that have the most significant effect on the selection and aggregation of service performance information". We believe that there are other critical judgements that should be disclosed, such as critical judgements in determining the actual level of performance against a measure.

At times, we see important performance measures that are challenging to measure, with complex methodologies and key judgements made in applying these. Examples might be:

- Measuring savings or economic benefits from a major project or initiative,
- Quantifying social benefits,
- Measuring greenhouse gas emissions at an entity or national level.

For these types of measures, we consider some level of disclosure about judgements made in measuring performance (plus perhaps methodologies and assumptions) is important to provide information to the reader about how performance has been assessed.

In the public sector critical judgements about selection and aggregation of performance measures are often set out in forward looking documents, such as statements of intent, statements of performance expectations or council long term plans. We think that paragraphs 44 to 46 should make it clear that aspects of the disclosure requirement could be satisfied by cross-referencing to such documents.

Less significant matters

Paragraph 20 – Paragraph 15 tells users of the review draft "what" information they should provide about service performance, and the text is in bold. Paragraph 20 tells users "how" they might measure the information referred to in paragraph 15, and we consider it would be useful and consistent to present paragraph 20 in bold text.

Paragraph 21 – The term "financial statements" should be replaced with "financial report" so it is consistent with other paragraphs in the review draft.

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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,

Dr Cherrie Yang
Accounting Lecturer
Auckland University of Technology
Email: cherrie.yang@aut.ac.nz

Specific comments on the changes made to the 2016 ED:

Proposals in the 2016 ED	What have been changed	Further comments
Objective		
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.	No change.	Agree.
Accountability and Decision Making		
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.	Summarised and moved the discussion of accountability and decision making from the standard to an introduction.	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. 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. 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,

		and general public. Thus, the users who rely on the service performance reports may be narrowly categorised. 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.
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. • "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.	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 *Presentation* section).	Agree.
The 2016 ED included subsections on *Reporting on Outputs* and *Reporting on Outcomes and Impacts*.	Deleted these subsections. The *Information to be Reported* section identifies reporting requirements in more general terms. The reporting entity concept (ED, paragraph 11) is discussed in the *Information to be Reported* section.	Agree.
Scope		

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). The 2016 ED encouraged all public sector public benefit entities to report in accordance with the draft standard.	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. Encouraged the application of the principles and requirements to service performance information outside the scope of the standard.	Agree.
Definitions		
The 2016 ED defined inputs, outcomes, outputs and performance indicators.	Referred to aspects of service performance in more general terms and deleted all definitions from the standard.	Agree.
Principles		
This section of the 2016 ED included subsections on the *Qualitative Characteristics* and *Constraints*. 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. 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."	No major changes to the underlying principles in the ED. 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". Added a paragraph from the PBE Conceptual Framework on the trade-off needed between the QCs. Emphasised the role of neutrality in faithful representation. Clarified that the assessment of what is appropriate and meaningful is from the user's point of view. Clarified that an entity presents service performance information in the same general purpose financial report as its financial statements.	Agree with all changes in these sections, especially the emphasis of the neutrality in terms of "unfavourable" aspects of the entity's service performance. Our own research identifies that funders perceive an information need for *unintended outcomes*. 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. It may be useful to acknowledge the difficulty to achieve QCs *comparability* and *verifiability* in the context of qualitative measures and descriptions.

Information to be Reported		
The 2016 ED included subsections headed *Entity Information* and *Outputs and Outcomes*. The entity information section included requirements about the reporting entity and reporting period. The outputs and outcomes section required that an entity's service performance information include: • 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. 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.	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. 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. Adopted a higher-level, non-prescriptive approach in drafting requirements for service performance information to be reported. Allowed for the range of other requirements that entities might be subject to and variations in the use of terminology. 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.	This section contains some significant changes compared to the 2016 Exposure Draft. The following comments are provided to further improve this section: • Para.19 - an important factor *To whom the entity is accountable* 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 *what they are accountable/responsible for*. • Para. 19 (c) – the explanatory notes may not entirely relevant to the factor *how it went about achieving its service performance objectives*. 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		
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.	Acknowledged that information on internal activities may be relevant. 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.	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.
Presentation		
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. 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. 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.	Required that an entity clearly identify the service performance information presented in accordance with the standard.	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.
Comparative Information and Consistency of Reporting		
The 2016 ED required the reporting of comparatives (this year versus last year). 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).	Added an introductory paragraph to this section explaining the importance of comparative information. Clarified when comparisons with planned performance are required. Acknowledged that judgement is required in deciding when to provide comparative narrative and descriptive information.	Agree.

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 *Presentation of Financial Statements* 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 *Presentation of Financial Reports.*	No change to proposals – the title of PBE IPSAS 1 will be changed to *Presentation of Financial Reports* 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.

Thank you for the opportunity to review the revised draft of the Service Performance Reporting Standard.

On behalf of both the Commerce Commission and the Electricity Authority, I can confirm that we have no further substantive comments on the XRB's draft Standard on Service Performance Reporting. We are pleased to note that much of our feedback was incorporated into this revised draft, particularly the removal of the requirement to report performance in terms of outputs, impacts and outcomes to make the Standard less prescriptive.

Regards

Susan McMillan
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31 July 2017

NZ Accounting Standards Board (NZASB)
External Reporting Board
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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

Felicity Caird
Manager, Governance Leadership Centre

Building a better
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04 August 2017

Chief Executive
External Reporting Board
PO Box 11250
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Wellington 6142

Dear Sir

NZASB Invitation to Comment on Limited Scope Review Draft of PBE FRS XX *Service Performance Reporting*

We are pleased to comment on the revised proposals outlined in the Limited Scope Review Draft of PBE FRS XX *Service Performance Reporting* ("revised ED"). As mentioned in our comment letter on the original *Exposure Draft NZASB 2016-6: Service Performance Reporting* ("original ED"), we are 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 PBEs' accountability to users of financial statements, as well as enhancing decision making within an organisation.

Our key concern with the original ED related to the application of its requirements to not-for-profit PBEs (particularly smaller ones in Tier 2) and ensuring there is an appropriate balance between cost of implementation and the benefits. Specifically, we were concerned that smaller PBEs may find it difficult and costly to comply with the original ED's requirements around the disclosure of the impacts that the entity has had on its outcomes. We note that the revised ED no longer requires the disclosure of outputs, outcomes or impacts. This applies to both Tier 1 and Tier 2 PBEs. We also note generally that the revised ED is less prescriptive than the original ED and provides PBEs with greater flexibility around reporting on their service performance. Therefore we believe that our abovementioned key concern is addressed by the revised ED.

In our view, the key risk regarding the revised ED is that the degree of flexibility provided by the less prescriptive and more high-level nature of its requirements may potentially be too high. As such, PBEs' interpretation of the proposed new standard may result in some useful service performance information not being reported. Generally, we believe that the revised ED's requirement to disclose critical judgements should mitigate this risk to some extent. However, we believe it would be useful to include additional requirements or guidance around reporting on the longer-term effects of a PBE's activities on society or a social group (i.e. reporting against what the original ED referred to as "outcomes"), where it is appropriate for an entity to report on this aspect of service performance. Having said this, we understand the challenge around including such requirements/ guidance in a standard that applies to a wide range of PBEs.

We also note that the less prescriptive and more high-level nature of the requirements in the revised ED may result in a lower level of comparability across different entities as compared to the original ED. However, we believe that this is mitigated to some extent by the requirement in the revised ED to disclose critical judgements made in reporting service performance, as well as the requirement to comply with the qualitative characteristics, including comparability.

Other than the matters described above, we do not have significant concerns around the workability of the revised ED or any potential unintended consequences arising from the revised ED.

For a more detailed response, please refer to the attached appendix.

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

Graeme Bennett
Partner

Building a better working world

Appendix A – Response to specific Limited Scope Review question

Taking into account the proposals in the 2016 ED, the comments received and the changes made in response to those comments, do you have any comments on the workability of the revised proposals or whether they would have any unintended consequences?

<u>Key changes in the revised ED:</u>

We note that the key changes in the revised ED as compared to the original ED are:

(1) The requirements of the revised ED are less prescriptive and more high-level than the original ED. For example, unlike the original ED, the revised ED no longer refers to, or requires disclosure of, outputs, outcomes or impacts. Instead, the revised ED requires entities to provide: (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.

(2) The revised ED requires entities to disclose critical judgements made when reporting service performance information, i.e. those judgements that have the most significant effect on the selection and aggregation of service performance information, and that are relevant to an understanding of the entity's service performance information.

<u>Workability and potential consequences of the revised ED as a result of the above key changes:</u>

(a) Advantages of revised ED

We believe that the above changes have several advantages in terms of enhancing the workability of the revised ED. For example, the key concern that we had with the original ED related to the application of its requirements to not-for-profit entities, particularly smaller ones in Tier 2, and ensuring there is an appropriate balance between cost of implementation and the benefits. Specifically, we were concerned that smaller entities may find it difficult and costly to comply with the original ED's requirements of having to establish whether there is clear evidence of a link between the entity's outputs and the actual impact on outcomes, and if such evidence existed, to report on the entity's impacts on outcomes. We therefore suggested that Tier 2 PBEs be exempt from the requirement around impacts. As noted above, the revised ED has altogether removed the requirement to report on impacts, as well as outputs and outcomes, for both Tier 1 and Tier 2 PBEs. In addition, although the revised ED has not introduced Tier 2 disclosure concessions, as noted above it is generally much less prescriptive that the original ED. Therefore the proposals in the revised ED should be easier and less costly to apply for all PBEs, including not-for-profit PBEs in Tier 2.

In addition, the move towards more general service performance reporting requirements gives PBEs greater freedom and flexibility to "tell their story" in a way that is tailored – and therefore most relevant and meaningful – to the specific PBE and its users. At the same time, the revised ED still specifically requires PBEs to provide disclosures on what they intend to achieve in the longer term and what they have provided during the year in terms of service performance, thereby still aligning PBEs' reporting requirements with their primary objective to provide goods or services for a community or social benefit.

We also note that the more general requirements of the revised ED will help avoid potential inconsistencies between the proposed standard and the terminology and requirements contained within the various pieces of legislation that require public sector PBEs to report on their service performance.

In terms of the requirement to disclose critical judgements, we believe that it will enhance the transparency of PBEs' service performance reports. Furthermore, we agree with the NZASB's comment in the Basis of Conclusion of the revised ED that the requirement to disclose critical judgement is a "necessary counterbalance" to the less prescriptive requirements of the revised ED. Specifically, we believe that the requirement to disclose critical judgements will to some extent mitigate certain concerns that arise from the move to more high-level requirements, as explained below.

(b) Discussion of potential risks arising from the revised ED

While we acknowledge the benefit of flexibility around service performance reporting requirements, we believe that there is a risk that the degree of flexibility provided by the less prescriptive and more high-level nature of the requirements in the revised ED may potentially be too high. As such, there is a potential risk that some useful service performance information, which would have been required under the original ED, may not be disclosed by PBEs under the revised ED. In general, the revised ED provides requirements that mitigates these risks. For example, we note that the original ED included an explicit requirement to explain the link between a PBE's outputs and expected outcomes. Such an explanation arguably enhances the understandablity and therefore usefulness of service performance information, as without it there is a risk that PBEs will report on their service performance by disclosing their wider service performance objectives and providing a list of goods/service produced during the year, but there may be a "disconnect" between the two elements. We note that the requirement to explain the link between outputs and expected outcomes was removed in the revised ED. However, we believe that this is mitigated by the revised ED's requirement to disclose critical judgements, as paragraph 46(a) of the revised ED requires PBEs to consider "*the extent to which the entity's service performance information is consistent with and clearly linked to the entity's overall purpose and strategies*", and states that "*[i]f it is not, users may need to understand why not*". Thus the revised ED still ensures that it is clear to users how the goods, services or other aspects of service performance reported on by a PBE are connected to the PBE's wider service performance goals.

However, in other cases, while the risk around useful information not being disclosed is mitigated to a certain extent, we believe that more detailed requirements or additional guidance could be beneficial. For example, it could be argued that the requirements in the original ED to report on outputs, outcomes and impacts, and to disclose performance measures with regards to outputs and impacts on outcomes, will have helped ensure a certain minimum level of information and structure in service performance reports, which would have been useful for users. These requirements arguably would have been useful to the reporting entity, in terms of providing a degree of clarity as to what it is expected to include in its service performance report. While the revised ED no longer requires PBEs to report on outputs, outcomes or impacts, it still specifically requires PBEs to provide contextual information on their broad service performance objectives and methods (which needs to draw on the entity's performance framework, theory of change or intervention logic, if used, and explain the main ways in which the PBE carries out service performance activities (paragraph 17-18)), and to report what they have provided during the year in terms of service performance (by providing an appropriate mix of service performance measures and/or descriptions). Further, the revised ED includes some guidance around performance measures, such as general examples of performance measures and descriptions (paragraph 20) and specific examples of possible performance measures and descriptions for reporting on goods and services provided (paragraphs 27-28). Therefore, while less prescriptive and more flexible, the revised ED still contains certain specific requirements and guidance around information to be disclosed. In addition, the requirement in the revised ED to disclose critical judgements should ensure that the reason for including or excluding certain service performance information is clear to users, and the overarching requirement to provide service performance information that is appropriate and meaningful for users, should help ensure that the service performance information provided to users is sufficient and useful.

However, it is possible that PBEs may need additional guidance when applying these less prescriptive requirements. We believe that this applies particularly to PBEs that report on the longer-term effects of their activities on society (similarly to what the original ED referred to as "outcomes"). We do not expect all PBEs within the scope of the proposed standard to be required to report on their performance against such social outcomes. For example, as noted in paragraph 19(a) of the proposed ED, a not-for-profit PBE that is responsible for providing certain goods or services to a group in the community, it would be appropriate to focus on goods or services produced during the year in its service performance report. However, for certain PBEs, especially in the public sector, reporting on longer-term social effects would provide useful information for users and help discharge the entity's accountability. We note that some guidance exists in the revised ED regarding reporting on performance against longer-term social effects of a PBE's activities (for example, paragraph 25 says that performance measures "may be used to inform assessments of the broad or longer-term effects of a project or an entity's work" on recipients of goods/services or a group of society – such as changes in educational achievements or poverty levels). However, generally, the revised ED seems to have a greater focus, or at least more guidance, on reporting on what has been produced during the year. Therefore, while we do not argue that the proposed standard should require all PBEs in Tier 1 and 2 to report on the long-term effect of their activities on society, we believe that additional requirements or guidance in this area would be useful. Such guidance will give PBEs that report on the longer-term social effects of their activities greater clarity as to how they are expected to report on this, and will help ensure that useful information is provided to users. Having said this, we understand the challenge around including such requirements/guidance, given that the proposed standard will apply to a wide range of different PBEs, i.e. both Tier 1 and Tier 2 PBEs across both the public and not-for-profit sectors.

Another potential concern with the less prescriptive approach of the revised ED is a possible lack of comparability in service performance reports across different PBEs. In our comment letter on the original ED, we noted that the proposals as originally drafted will improve consistency in service performance reporting between entities with similar activities and between reporting periods. Given the less prescriptive and more high-level nature of the requirements in the revised ED, it is possible that service performance reporting may be less consistent across entities as compared to the consistency that will have been achieved by the original ED. This applies especially to PBEs in the not-for-profit sector, where – unlike in the public sector – there is no legislation that requires service performance reporting. However, we believe that the requirement in the revised ED to disclose critical judgements will help mitigate this concern to some extent. For example, paragraph 44 of the revised ED acknowledges that entities need to apply judgement when deciding on an appropriate and meaningful mix of performance measures (as per paragraphs 21-22), and requires entities to disclose the critical judgements applied in this regard. In addition, the revised ED still requires service performance information to comply with the qualitative characteristics, including comparability.

Finally, it could be argued that the benefits of the more prescriptive requirements in the original ED may have outweighed the cost of complying with these requirements for Tier 1 PBEs, therefore there would have been merit in retaining the more prescriptive requirements of the original ED and providing Tier 2 disclosure concessions. However, it is not clear that the merits of such an approach would be greater than the abovementioned benefits of the NZASB's chosen approach, namely the benefits of greater flexibility, more tailored information and lower compliance costs to both Tier 1 and Tier 2 PBEs, as well as lack of conflict with legislative requirements for public sector PBEs. In addition, as noted above, the requirements in the revised ED to disclose critical judgements, comply with the qualitative characteristic of comparability and provide information that is appropriate and meaningful to users should help mitigate the potential concern around comparability and ensure that PBEs provide service performance information that is useful to users. However, please note the abovementioned discussion around the potential risk associated with a high degree of flexibility in the revised ED, which could be mitigated by additional guidance.

Other comments on the revised ED:
Additionally, we note the following with regards to the revised ED:

- The revised ED has added an emphasis on neutrality when requiring service performance information to be faithfully representative. We believe that this will help ensure that both good and poor service performance is reported, which will enhance PBEs' accountability and the usefulness of service performance information for users.

- The revised ED increases the implementation period of the proposed requirements from 2 years to 3 years. We believe that this enhances the workability of the proposed standard, as it will allow PBEs, particularly not-for-profit PBEs, sufficient time to update their systems and processes and ensure that the new standard is properly implemented.

- We note that under the standards *PBE Simple Format Reporting – Accrual*, Tier 3 public sector PBEs whose legislation requires service performance reporting and all Tier 3 not-for profit PBEs are required to report on their outputs and outcomes in a statement of service performance. By contrast the revised ED, which will apply to Tier 1 and Tier 2 PBEs, does not specifically refer to outputs and outcomes. We suggest that the NZASB considers whether *PBE Simple Format Reporting – Accrual* should be amended in this respect to be consistent with the revised ED.

Dear Joanne,

In behalf of Kevin Ramsay, I am responding to your email below.

We read the revised draft PBE FRS, *Service Performance Reporting* standard and the feedback statement on ED NZASB 2016-6.

We appreciate that you have taken into careful consideration the comments received from the respondents. We believe that the current draft of the standard has achieved the purpose of being a high-level guidance to the public benefit entities especially those that have existing legislative requirements. We also support that comparatives should be included, as relevant, to promote consistency of the service performance reports and the disclosure of significant judgements.

With the above, we don't have further comments on the revised draft.

Thanks and regards,
Gina

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NZ ACCOUNTING STANDARDS BOARD

Copy of letter sent to all respondents on the 2016 ED. A similar letter was sent to ten other interested parties.

29 May 2017

Respondent Address

Dear [Respondent]

Service Performance Reporting – Limited Scope Consultation

In July 2016 you commented on ED NZASB 2016-6 *Service Performance Reporting* (the 2016 ED). The NZASB has carefully considered the comments it received and has revised its proposals to address the issues raised. Although the changes were made in response to comments received, there is a possibility that making these changes might introduce new, unforeseen issues. Therefore, the NZASB is now undertaking a limited scope consultation to check that its revised proposals are workable and would not have unintended consequences.

This letter explains why the NZASB needed to make changes to its proposals and explains how you can access the limited scope consultation documents. The consultation is open for public comment until **28 July 2017**.

The NZASB will consider feedback on its revised proposals with the aim of finalising a standard by the end of 2017.

Why the NZASB needed to make changes

The NZASB's aim in 2016 was to develop a standard that could be applied by a wide range of PBEs in reporting on their service performance. The 2016 ED aimed to establish best practice requirements, while acknowledging the difficulties that some entities might face in meeting the proposed requirements.

The requirements in the 2016 ED were based on the following three dimensions of service performance.

(a) What did the entity do?

(b) Why did the entity do it?

(c) What impact did the entity have?

These dimensions were described using the terms outputs, outcomes and impacts. The 2016 ED defined outcomes as the impacts on society or segments of society as a result of the entity's outputs and operations. The 2016 ED proposed that all entities explain the outcomes that they seek to influence, how they consider their outputs contribute to those outcomes, and, where appropriate, what impacts the entity had on those outcomes. The 2016 ED acknowledged a number of factors that could make it difficult for some entities to report on impacts and suggested that reporting on what it referred to as intermediate outcomes could partly address these difficulties.

Although respondents supported the development of a standard on service performance reporting, the proposed requirements were regarded as too prescriptive and too difficult for a range of entities to apply. Comments from respondents centred around the following issues.

(a) Entities may be subject to a range of other service performance reporting requirements, including legislative requirements. Entities should be able to comply with both the proposed standard and those other requirements without restating or duplicating information.

(b) Legislative requirements continue to evolve. For example, the terms outputs and outcomes have recently been removed from some legislation.

(c) Differing views about whether the term impacts should be used to describe what an entity is seeking to influence or ultimate outcomes. Not-for-profit entities and public sector entities indicated that they used the term impact in differing ways.

(d) The difficulty of attributing changes to an entity's actions, particularly when a number of entities have been working together.

(e) A lack of clarity about when an entity was required to report on impacts.

A number of respondents suggested changes to the proposals based on the performance frameworks which they were familiar with. These suggestions highlighted that there are a number of performance frameworks being used by PBEs. Common suggestions were to generalise language, use fewer defined terms and develop higher-level requirements.

The NZASB noted this feedback and agreed that in order to achieve its objective of developing a standard that could be applied by a wide range of entities it needed to focus on high-level principles and express the requirements regarding the information to be reported in more general terms. The NZASB focused on identifying requirements that would provide useful information but which could be applied by any Tier 1 or Tier 2 PBE. This led the NZASB to require that an entity 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).

Despite these changes the NZASB considers that the revised proposals are consistent with the principles underlying the 2016 ED. The key change is that entities have more flexibility in how they report on their service performance.

In addition to redrafting the requirements on information to be reported, other changes to the proposals in the 2016 ED include:

(a) the addition of an introduction to the draft standard and the deletion of the section in the 2016 ED on accountability and decision making; and

(b) the addition of a new section on disclosure of judgements. 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', the disclosure requirements provide a necessary counterbalance, so users can understand how those judgements were made.

The draft standard includes a Basis for Conclusions which outlines the key matters considered by the NZASB during its deliberations on comments received, and Tables of Concordance which outline the relationship between the paragraphs in the draft standard and those in the 2016 ED.

Accessing the consultation documents

The following consultation documents are available on the XRB's website.

- Limited Scope Review Draft PBE FRS XX *Service Performance Reporting*
- Feedback statement on ED NZASB 2016-6

Other due process documents, including the comment letters on the 2016 ED, are also available on the website.

Taking into account the proposals in the 2016 ED, the comments received and the changes made in response to those comments, do you have any comments on the workability of the revised proposals or whether they would have any unintended consequences?

Auditing standard

The New Zealand Auditing and Assurance Standards Board (NZAuASB) also has a project underway to develop an auditing standard on service performance information. Information about that project will be available in due course via the NZAuASB's communiqués.

Yours sincerely

Kimberley Crook

Chair NZASB

Prepared as at May 2017 to accompany the limited scope review draft of PBE FRS XX *Service Performance Reporting*

Feedback Statement on ED NZASB 2016-6 *Service Performance Reporting*

ED NZASB 2016-6 *Service Performance Reporting* (the ED) was issued in February 2016. 18 submissions were received on the ED.

The table in this feedback statement indicates where and how the proposals in the ED have changed as a result of feedback received on the ED.

The main changes are:

- the addition of an introduction to the draft standard and the deletion of the ED section on accountability and decision making;
- the redrafting of the section on information to be reported; and
- the addition of a new section on disclosure of judgements.

Further information about the changes is available in the Basis for Conclusions and Tables of Concordance which accompany the draft standard.
If you are reading this feedback statement, you might also be interested in the submissions on ED NZASB 2016-6
The NZASB considered these submissions at its September 2016 meeting.

Proposals in the 2016 ED	What we heard	What we changed
Objective		
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.	General support.	No change.
Accountability and Decision Making		
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.	General support.	Summarised and moved the discussion of accountability and decision making from the standard to an introduction.
Paragraph 9 of the 2016 ED referred to three dimensions of service performance which formed the basis of the requirements in the 2016 ED. "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.	Some respondents suggested that the questions should form the basis of the requirements, rather than using the terms outputs, outcomes and impacts. Respondents noted that the terms outputs and outcomes had recently been removed from some legislation. The proposal to require reporting about impacts drew a lot of comment. Concerns were raised about the difficulty of attributing changes to an entity's actions.	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 *Presentation* section).

Prepared as at May 2017 to accompany the limited scope review draft of PBE FRS XX *Service Performance Reporting*

Proposals in the 2016 ED	**What we heard**	**What we changed**
"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.	Concerns were also raised about what the Board meant by impact and when an entity was required to report on impacts. Respondents suggested that the Board generalise language, use fewer defined terms and issue high-level requirements.	
The 2016 ED included subsections on *Reporting on Outputs* and *Reporting on Outcomes and Impacts*.		Deleted these subsections. The *Information to be Reported* section identifies reporting requirements in more general terms. The reporting entity concept (ED, paragraph 11) is discussed in the *Information to be Reported* section.
Scope		
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). The 2016 ED encouraged all public sector public benefit entities to report in accordance with the draft standard.	General support. Most respondents accepted the Board's reasons for excluding public sector PBEs without existing legislative requirements from the scope of the ED. Respondents suggested refinements to better align the scope requirements with public sector legislative requirements.	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. Encouraged the application of the principles and requirements to service performance information outside the scope of the standard.
Definitions		
The 2016 ED defined inputs, outcomes, outputs and performance indicators.	Feedback from respondents demonstrated that terms are used in differing ways by different types of entities. The terminology used in the ED differed from that used in some outcome frameworks and some legislation.	Referred to aspects of service performance in more general terms and deleted all definitions from the standard.
Principles		
This section of the 2016 ED included subsections on the *Qualitative Characteristics* and *Constraints*. The 2016 ED required that an entity present service	General support. The Board received feedback that the words "satisfies the QCs to the extent possible" could be read as	No major changes to the underlying principles in the ED.

Proposals in the 2016 ED	**What we heard**	**What we changed**
performance information that is useful for accountability and decision-making and enable users to make assessments of the entity's performance. 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."	implying that an entity did not have to provide any information if it considered that the information did not satisfy all of the QCs. Respondents requested more discussion about the judgements and trade-offs required when applying the QCs. Respondents requested that more emphasis be placed on the role of neutrality (need for a complete picture, the good and the bad) in faithful representation. Respondents supported using the phrase appropriate and meaningful, but requested that it be linked to a user perspective.	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". Added a paragraph from the PBE Conceptual Framework on the trade-off needed between the QCs. Emphasised the role of neutrality in faithful representation. Clarified that the assessment of what is appropriate and meaningful is from the user's point of view. Clarified that an entity presents service performance information in the same general purpose financial report as its financial statements.
Information to be Reported		
The 2016 ED included subsections headed *Entity Information* and *Outputs and Outcomes*. The entity information section included requirements about the reporting entity and reporting period. The outputs and outcomes section required that an entity's service performance information include: • 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. 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.	Respondents felt the information to be reported section was still quite prescriptive. Respondents felt that the ED did not quite meet the aim of a high-level principles-based approach intended to provide flexibility for entities to "tell their story" in a way that is meaningful for them and their users. Respondents felt the requirement to report on the link between its outputs and its outcomes put too much focus on measuring and attributing outcomes and noted that this can be a costly and lengthy process. Respondents were confused as to when reporting on impacts was required and expressed concerns about the difficulties of measuring impacts, especially as these may not be quantifiable or may occur over a number of reporting periods. Respondents also expressed concerns about claiming responsibility for outcomes when, for example, a number of different	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. 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. Adopted a higher-level, non-prescriptive approach in drafting requirements for service performance information to be reported. Allowed for the range of other requirements that entities might be subject to and variations in the use of terminology. Allowed more flexibility in how an entity reports its service performance information.

Proposals in the 2016 ED	**What we heard**	**What we changed**
	agencies may be involved in addressing a particular social service need. Respondents suggested that entities should be required to provide sufficient information to explain or illustrate their intervention logic/plan (sometimes referred to as a performance framework, outcomes framework or theory of change). A few respondents suggested that cost information be mandatory.	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.
Performance Indicators		
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.	Information on internal activities may provide important context for service performance information.	Acknowledged that information on internal activities may be relevant. 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.
Presentation		
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. 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. The 2016 ED permitted cross referencing to information outside the service performance section of an entity's general purpose financial report to	External parties, such as auditors, must be able to clearly identify the information that an entity has presented in order to meet the requirements of the standard. External parties must be able to distinguish between information that has been provided in accordance with the draft standard and management commentary.	Required that an entity clearly identify the service performance information presented in accordance with the standard.

Proposals in the 2016 ED	**What we heard**	**What we changed**
enhance the understandability of the service performance information.		
Comparative Information and Consistency of Reporting		
The 2016 ED required the reporting of comparatives (this year versus last year). 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). The 2016 ED required entities to report service performance consistently and disclose changes in reporting.	Respondents commented on the difficulty of providing comparatives for narrative information.	Added an introductory paragraph to this section explaining the importance of comparative information. Clarified when comparisons with planned performance are required. Acknowledged that judgement is required in deciding when to provide comparative narrative and descriptive information.
Disclosure of Judgements		
This section was not in the 2016 ED.	Respondents felt an entity should explain the basis for chosen measures and should disclose critical judgements made by the entity in the selection of what to report. A respondent suggested that the standard should require evidence of stakeholder engagement.	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.
Effective Date		
The 2016 ED proposed a two-year implementation period.	The majority of respondents supported the proposed two-year implementation period. Those arguing for longer based their comments on their experience in developing and reporting on new measures. The time	Allowed a three-year implementation period (1 January 2021) with early adoption permitted.

Prepared as at May 2017 to accompany the limited scope review draft of PBE FRS XX *Service Performance Reporting*

Proposals in the 2016 ED	**What we heard**	**What we changed**
	needed for not-for-profit entities to develop systems, identify measures and collect and test data was a key concern. Some respondents felt that 3 years would be better or that there should be no requirement for comparatives in the first year.	
Amendments to Other Standards		
The 2016 ED proposed amendments to PBE IPSAS 1 *Presentation of Financial Statements* 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 *Presentation of Financial Reports.*	General support. A few respondents did not think that the proposed title for PBE IPSAS 1 reflected the "non-financial" nature of service performance information.	No change to proposals – the title of PBE IPSAS 1 will be changed to *Presentation of Financial Reports* as this is consistent with the PBE Conceptual Framework.
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.	Respondents supported the development of guidance, particularly for smaller entities. Respondents highlighted the need for ongoing education and support.	We intend to develop guidance with a focus on Tier 2 NFPs that may not have previously reported on service performance

The accountability information needs of key charity funders

Cherrie Yang, Deryl Northcott and Rowena Sinclair

Government and philanthropic funders are key charity stakeholders, yet we know little about their accountability information needs. This New Zealand study captures these stakeholders' perceptions of the background, financial and non-financial performance information they need from charities. It also reveals how, in addition to imposing reporting requirements, these key funders engage in 'institutional work' to ensure they receive appropriate accountability information.

Keywords: Accountability; charities; funders; information needs; neo-institutional sociology.

Increasing public scrutiny of the charity sector has highlighted changing expectations about the accountability information needs of stakeholders (Saxton, 2016). In the charities context, accountability is the 'process by which assets devoted to charitable purpose are put to their proper purpose and information about their use is made available' (Fishman, 2007, p. 13). Hence, accountability is discharged via reporting information that meets the needs of charities' stakeholders (Connolly and Hyndman, 2003, 2013a). The stakeholders to whom charities are accountable include: regulators; funders (government and philanthropic); beneficiaries, volunteers; boards of trustees; and paid staff. Among these groups, funders are key stakeholders, with high accountability expectations (Dhanani, 2009). Connolly and Hyndman (2013b) examined the accountability information needs of philanthropic funders (including donors), and found that small donors have limited powers of interrogation and rely on communication channels such as trustees' annual reports to meet their information needs. There is, however, a lack of research into the information needs of larger government and philanthropic funding organizations and the mechanisms they use to ensure charities provide this information. This paper addresses this research gap.

Government and philanthropic organizations have a distinct and important accountability relationship with charities because not-for-profit organizations (NFPs), including charities, rely heavily on these funders (Meyer and Simsa, 2014). Consequently, government and philanthropic funders hold a legitimate and immediate interest in charities' activities and have considerable influence over their accountability reporting practices. Also, unlike donors, government and philanthropic organizations often have direct contact with charities they fund. This gives them the opportunity to influence the institutional structures and norms that shape accountability reporting, as will be shown in this paper. However, although some studies (for example Benjamin, 2010) examine the information *requirements* funders place on charities, these imposed requirements may not fully meet funders' information *needs*. Indeed, little is known about funders' own perceptions of the accountability information they need from charities.

This paper examines the perceived accountability information *needs* of key charity funders from their own perspectives. Extant understanding of the information needs of charities' stakeholders is derived largely from UK-based evidence, so this paper provides a useful comparison because our empirical setting is New Zealand (Connolly and Hyndman, 2013a).

Another contribution is our use of 'institutional work' (IW) theory (Lawrence and Suddaby, 2006) to examine how key funders get the accountability information they want.

Research context

The charity sector contributes much to New Zealand's society and economy. More than 27,000 registered charities employ 180,000 equivalent full-time paid staff and use 400,000 volunteers. The sector receives around $NZ16.8 billion in annual income and, in 2014, had assets of $NZ48.9 billion (Charities Services, 2015). In the face of declining government funding, New Zealand charities have increasingly turned to commercial fundraising (Cordery, 2012). Nonetheless, New Zealand NFPs (including charities) rely on the government for around 25% of their funding, while also receiving a higher proportion (20%) of their funding from philanthropic organizations than do their counterparts in the USA (15%), UK (11%) and Australia (10%) (Sanders *et al.*, 2008). Hence, the

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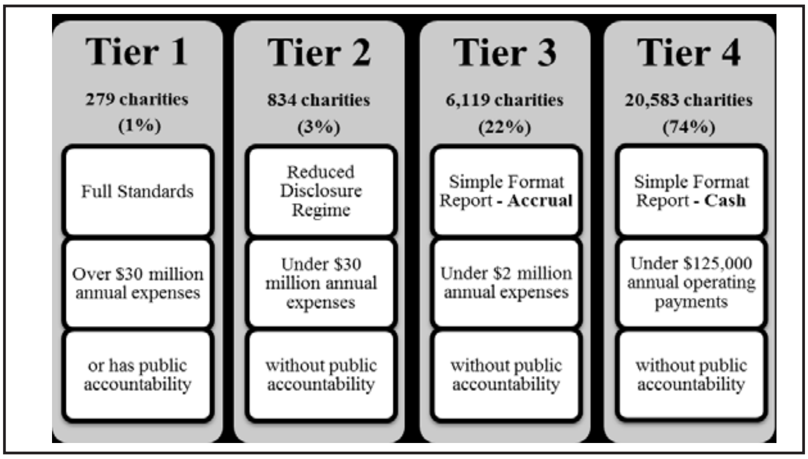
support of these funders is key to the sustainability of New Zealand charities.

The Department of Internal Affairs-Charities Services (DIA-CS) and the External Reporting Board (XRB) regulate the New Zealand charity sector. The XRB issues relevant reporting and assurance standards. The DIA-CS oversees charities' registration and reporting processes and guides charities on complying with XRB standards (Charities Services, 2015). The DIA-CS requires registered charities to provide background and financial information via an 'annual return'. The required background information includes the charity's legal name and contact details, registration number, structure, and key aims and purposes. The financial information includes financial statements (which, depending on the charity's size, may be unaudited) and information on accounting methods. Failure to furnish this information can lead to a charity's deregistration and consequent loss of special tax status and perceived legitimacy to funders. From April 2015, many New Zealand registered charities have also been required to report performance information. A new framework (figure 1) classifies charities into four tiers based on their annual expenses (tiers 1 to 3) or operating payments (tier 4), and whether they have 'public accountability' (for example their debt or equity instruments are traded in a public market) (XRB, 2013, 2014). Tier 1 charities are the largest charities.

Tier 1 charities must apply full accounting standards based on IPSAS. The reporting regime for tier 2 charities has the same recognition and measurement requirements, but with reduced disclosure requirements, while the 96% of New Zealand charities that are in tiers 3 and 4 have simplified reporting requirements (Charities Services, 2014).

Figure 1. Charity tiers and reporting requirements (Charities Services, 2016).



While the NZASB (2016), a sub-board of the XRB, is still developing standards on service performance reporting for tier 1 and 2 charities, from 2015 tier 3 and 4 charities must report their actual, budgeted and previous-year outputs in their statement of service performance (SSP). Outcomes reporting will also be required for tier 3 charities, but remains optional for tier 4 charities. Although it is too early to assess New Zealand charities' compliance with the new XRB reporting standards (when we conducted this study they were yet to file their first performance reports), the regulators' ability to sanction registered charities makes compliance likely. The background and financial information that New Zealand charities furnish to meet regulatory requirements is publicly accessible on the Charities Register. However, at the time of this study, there was no regulatory requirement for registered charities to disclose non-financial performance information.

Information needs of key funders: what do we know?

The international literature makes clear that background, financial and performance information are all crucial elements of how charities discharge accountability to their stakeholders (Connolly and Hyndman, 2003, 2013a). Background information enables stakeholders to understand charities' structures and activities; interpret the financial statements; and understand the context for charities' performance (Connolly and Hyndman, 2003). Financial information indicates how charities' funds are acquired and spent and meets funders' needs for information on solvency and efficiency (Connolly and Hyndman, 2003). However, financial information appears to play a limited role in discharging accountability, with other performance information such as outputs and outcomes seen as equally important (Connolly and Dhanani, 2009; Connolly and Hyndman, 2013a). Outputs are the direct results of services and are generally disclosed in quantified form, for example the number of children fed. Outcomes are benefits or changes for beneficiaries 'during or after their involvement with a program' (Hatry *et al.*, 1996, p. 2). UK research suggests that charities' limited reporting of such performance information illustrates significant weaknesses in their accountability to funders (Connolly and Hyndman, 2013a).

Interestingly, there has been little examination of what accountability information funders feel they need from charities. Further research is therefore needed to understand the information that funders perceive they need and how they go about ensuring its provision. This paper addresses this gap by examining the information needs of two key funders of New Zealand charities—government and philanthropic organizations—to understand what accountability information they need and how they go about getting it.

Theoretical perspective

Prior studies of charity accountability have drawn mainly on accountability, agency, or stakeholder theory. However, these theories do not capture the institutional structures (rules, norms and routines) that shape what is considered 'legitimate' behaviour and how the institutional environment is created, maintained and changed. Since charities and their funders operate in an institutional setting with both explicit (regulatory and contractual) and implicit (normative and legitimating) social structures, neo-institutional sociology offers insights into how key funders guide charities' accountability practices.

Neo-institutional sociology (DiMaggio and Powell, 1983) would suggest that funders can exert three types of 'isomorphic pressure' on charities' reporting practices: coercive pressure (via contractual requirements); normative pressure (via establishing professional norms); and mimetic pressure (via encouraging organizations to emulate other organizations perceived as more legitimate). However, this view overlooks the agency of individuals and groups in shaping organizational norms and practices (Lawrence *et al.*, 2009).

The concept of IW addresses this deficiency. IW is 'the purposive action of individuals and organizations aimed at creating, maintaining and disrupting institutions' (Lawrence and Suddaby, 2006, p. 215). We use this theory to examine how actors in government and philanthropic funding organizations perform IW to influence the institutional framework that shapes charities' accountability reporting, in order to secure the accountability information they need.

Creating institutions via institutional work

IW directed at creating institutions emphasizes 'actions designed to alter abstract categorizations, in which the boundaries of meaning systems are altered' (Lawrence and Suddaby, 2006, p. 221). This category includes the following forms of IW:

- 'Changing normative associations' (re-forming the connections between practices and their moral foundations to change norms and belief systems).
- 'Defining' (setting rules, systems and boundaries).
- 'Constructing normative networks' (constructing a 'peer group' for monitoring compliance with accepted norms).
- 'Mimicry' (associating new practices with existing, practices to ease their adoption).
- 'Educating' (imparting skills and knowledge necessary to support the new institution).

Maintaining institutions via institutional work

IW aimed at *maintaining* institutions involves 'supporting, repairing or recreating the social mechanisms that ensure compliance' (Lawrence and Suddaby, 2006):

- 'Policing' work maintains institutions by enforcing adherence to rules.
- 'Embedding and routinizing' work reproduces existing norms and belief systems.
- 'Valourizing and demonizing' work profiles positive and negative examples that illustrate accepted practice.

Disrupting institutions via institutional work

Finally, IW aimed at *disrupting* institutions involves intentional action to undermine the controls that underpin institutions (Lawrence and Suddaby, 2006). Lawrence *et al.* (2009, p. 9) note disrupting work tends to be observed in the context of creating new institutions. Key forms of disruptive IW include:

- 'Undermining assumptions and beliefs' to decrease the perceived risks of innovation and differentiation.
- 'Not selecting institutional practices and/or selecting others' to indicate changed preferences regarding accepted practice (Battilana and D'Aunno, 2009, p. 48).

This paper offers a novel theoretical contribution by using IW concepts to reveal how, in addition to imposing formal reporting requirements, key funders influence charities' accountability practices by creating, maintaining and disrupting institutionalized reporting norms and practices. This IW is underpinned by day-to-day interactions and relationships and is more subtle than coercing charities to provide accountability information.

Research methods

The concept of IW highlights the role of actors, their institutional actions and their relationships with institutions. Hence, to understand the accountability information needs of key funders, we examined their perceptions within the New

Zealand charity sector.

Semi-structured interviews were conducted with five participants from two government funding agencies and nine participants from nine different philanthropic funding organizations. Thirteen of the 14 interviews were recorded and transcribed (one interviewee declined to be recorded, so notes were taken). In the interviews, participants were encouraged to share their perceptions of their accountability information needs in their own words.

We triangulated the interview data with documents obtained from the interviewees' 11 funding organizations. Where available, these documents comprised (for government funders): value for money reviews; outcome measures brochures; outcome framework discussion documents; funding agreement practice guidelines; health and lifestyles surveys; codes of funding practice; results-based accountability documents; and webpages, and (for philanthropic funders): eligibility questionnaires; funding application forms and guidance notes; donation/funding report-back forms; newsletters; annual reports; preliminary assessment forms; final impact reports; strategic plans; and webpages. Some documents were provided during interviews (for example final impact reports), while others were in the public domain (for example funding application forms). The interview data was analysed using NVivo. Key concepts related to isomorphic pressures and IW were used as a framework for developing the analysis codes. Thematic analysis was then used to extract comparative and/or supplementary data from the documents.

Findings

Our findings are presented in two parts: background and financial information; and non-financial performance information. Our aim is to highlight for each category the different information *requirements* versus *needs*, and the various roles of IW. We first consider the accountability information required by the funders via coercive pressures. Second, we examine how these funders create normative and mimetic pressures on charities (to obtain further information they perceive they need) by engaging in IW to create, maintain and disrupt the institutionalized norms and practices that shape charity accountability reporting.

Background and financial information

Required information: Both government and philanthropic funders indicated they require background and financial information from charities. Required background information comprises the charity's legal name and contact details, taxation status, DIA-CS registration number, organizational structure, aims and purpose, and the people applying for the grant. Much of this information is available from annual returns, as published on the Charities Register, but funders also use grant application forms as coercive mechanisms to require summary information: 'They need to tell us what type of organizations they are, their addresses, the people who are applying for grants…their [DIA-CS] number, if they are GST registered, if they have an IRD tax exemption, whether they are affiliated to a national or regional body or corporation' (grants and marketing manager, philanthropic funder 4).

The annual returns required by the DIA-CS also contain financial statements (often unaudited) and information on accounting methods. However, both government and philanthropic funders require further financial information from charities via budgets, budget variance reports, and audited financial statements. A government funder noted the importance of the budget and variance report for demonstrating financial accountability: 'We ask for our funding to be named separately, so it says "this amount is funded by the Ministry". From there, we will see where they have spent the money' (family and community service manager, government funder 2).

Grant application and report-back forms require audited financial statements, which funders see as crucial to accountability: 'we rely on their audited accounts to see where they got money from and how it was spent. If they don't do that, it will become a contractual issue; we would not fund them the following year' (family and community service manager, government funder 3).

While each element of financial information serves different needs, collectively they allow funders to: assess the efficiency of a charity's resource allocations; monitor expenditure; and be assured of the charity's financial sustainability. This financial accountability is a key element of the information funders want from charities, as this quote illustrates: 'The principal criterion comes back to accountability; did they spend the funds on what they said they would do?' (principal policy analyst, government funder 1).

Accordingly, the funders invoke various sanctions to ensure the provision of financial information. First, if grant application forms omit required background and budget information, funding will not be offered. Second, charities that fail to meet contractual financial obligations will receive no future funding. Third, 'money-back' penalties may be used: 'If the financial accountability…is not correct then of course we might need some or all of the money back' (grants manager, philanthropic funder 1). These sanctions reflect the coercive pressure funders can exert to secure the background and financial information they view as necessary for accountability. However, coercive pressures are only one means by which funders elicit this information. Their more subtle, day-to-day creation of normative and mimetic pressures on charities' reporting of accountability information is considered next.

Institutional work—creating and maintaining norms and practices: Normative and mimetic pressures are exerted by the studied funders through various forms of IW directed at creating and maintaining the institutional environment that shapes reporting practices. For example, via their use of standardized grant application, budget and report-back forms, funders perform both 'defining' and 'embedding and routinizing' IW to create and then maintain rule systems. The use of standardized reporting templates reinforces 'legitimate' practice in the provision of background and financial information. Institution-maintaining 'policing' work is also carried out via 'background checks… reference checking and due diligence' (foundation manager, philanthropic funder 7) on charities, and by imposing sanctions for non-compliance with financial reporting requirements.

Non-financial performance information

Required information

Despite the importance of background and financial information, it is perceived to depict only a partial picture that fails to capture charities' effectiveness: 'Financial accountability is a major concern…but we have started to ask [about performance]…we ask what outcomes they see being achieved and in the [report-back] form we ask how the grant enabled organizations to achieve [these] outcomes' (grants manager, philanthropic funder 1). And, from the family and community support team manager, government funder 2: 'There should be a little bit of numbers, but more important is what the impact was…I want clients to say [the charity's services] really helped them and made a difference in their lives'.

Accordingly, three types of non-financial performance information are required from charities by these funders: achieved outputs, achieved outcomes, and 'results-based accountability' reports (government funders only).

Outputs and outcomes: At the time of our study, New Zealand registered charities were not required by regulators to disclose their outputs or outcomes. However, this information was required by government and philanthropic funders, although outcomes were perceived as more significant: 'Generally outputs are in terms of a contracted volume and a number of clients, but they are not as important as the outcomes for us' (family and community service manager, government funder 2). And 'Any information on outcomes is good, for example, what are the short and long term outcomes? Charities need to understand and tell the story of what difference they may have made' (grants and project manager, philanthropic funder 6).

These findings suggest that the funders need information on both short- and long-term outcomes. However, reporting of more difficult-to-capture long-term outcomes is encouraged but not required. Interestingly, while information on outputs was *required* by these funders, it was perceived as less *necessary* than outcomes information. Hence the funders downplayed easier-to-measure outputs in favour of more challenging and subjective outcome measures. This was a surprising finding that we discuss later in regard to the IW done by these funders.

Results-based accountability: The use of a results-based accountability (RBA) framework is also required by government funders: 'Providers report back against a results-based accountability reporting framework…If a provider is not achieving what we want in terms of outputs and outcomes, we will put them on an action plan to improve…If they fail to meet the agreed actions, that provider will be exited' (family and community services manager, government funder 2). This RBA framework links outputs and outcomes to three questions: *How much did we do? How well did we do it? Is anyone better off?* Charities funded by this government agency are contractually required to disclose performance information according to the RBA template. This suggests that strong coercive pressures influence charities' reporting practices in regard to outputs and outcomes accountability. While philanthropic funders did not require charities to report against the RBA framework, some were moving towards this approach.

Institutional work—creating, maintaining and disrupting institutions

In addition to these coercive requirements for charities to report on outputs, outcomes and results-based accountability, the funders in this study can be seen to exert normative and mimetic pressures via their IW directed at creating, maintaining and/or disrupting institutionalized norms and practices around charities' reporting of non-financial performance information.

Outputs and outcomes: As noted, outputs reporting is seen as less important than outcomes reporting. Further, funders encourage charities to report both short- and long-term outcomes and to use narratives and beneficiaries' stories to capture long-term outcomes. For example: 'For the children in respite care, you are going to get some short-term outcomes such as 'I was happy with the service'. Then when they are 20, you want them to say 'actually, I had a good childhood…and things worked out really well' (family and community service manager, government funder 2).

Funders promoting outcomes reporting can be interpreted as an example of IW aimed at disrupting institutions by 'not selecting institutional practices and/or selecting others' in order to change institutionalized preferences regarding accepted practice (Battilana and D'Aunno, 2009, p. 48). This IW undermines current reporting norms that accept outputs as a key measure of charity effectiveness and view long-term outcomes as subjective, difficult to capture and, thus, less useful for accountability purposes. Funders' 'undermining of assumptions and beliefs' (Lawrence and Suddaby, 2006) about the problems of (particularly long-term) outcome measures serves to decrease the perceived risk of practice change, thus encouraging charities to tell their outcomes stories in innovative ways.

A further unexpected finding was that philanthropic funders engaged in disruptive IW to reorient charities towards disclosing *unintended,* as well as intended outcomes: 'Our [funding] recipients might achieve 60% of their outcomes and they might fail, but then it will lead to some other stuff that grows into this big, beautiful, blossoming tree that we were not expecting…I think trust is a key component. It might look risky, but it is actually not if you…do the reference checks, meet them and see what they have achieved' (community manager, philanthropic funder 8). This can be seen as IW directed at creating new norms and practices. These funders are 're-forming the connections between practices and their moral foundations' by making it acceptable, even desirable, to report outcomes that might otherwise be perceived as inappropriate risks or failures. The funders encourage the reporting of unintended outcomes because they want to be informed of the innovations charities are achieving, and because they trust charities that have a verified track-record. The trust evident here differs from the irrational trust associated with altruism, a well-identified motive for charitable giving (Bekkers and Wiepking, 2011). Rather, it derives from 'policing' IW conducted by the philanthropic funders to verify charities' background and financial information and to build confidence in their capabilities. The development of such trust relations seems able to mitigate situations where formal accountability expectations (for example delivering promised outcomes) are not met by charities. It may also promote collaborative learning between funders and charities.

Results-based accountability: The government funders require results-based accountability reporting, but the philanthropic funders do not. However, philanthropic funders are choosing to adopt the 'language of RBA': 'A lot of the charities we support are also funded by government and are familiar with RBA…we do not follow RBA fully, but I guess we are trying to build a common language into everything that we do' (grants and project manager, philanthropic funder 6). This is an example of 'mimicry' IW by these philanthropic funders to create new norms and practices around accountability. The RBA framework promoted by government funders is perceived as a successful model, so by mimicking the taken-for-granted, legitimated 'language of RBA', philanthropic funders hope to ease charities' transition towards meeting their needs for non-financial performance information.

Up-skilling of charities: To cultivate appropriate performance reporting, the funders provide workshops, training, and funding for external mentoring. An interviewee illustrated how funders view normative (via professional peer-groups) and mimetic (via emulating best practice) influences as shifting charities towards improved reporting practices: 'One of the most valuable things for [workshop] participants was the opportunity to talk with other charities about what they do…For many of them it's sort of a lightbulb moment that's shown them evaluation can really help them tell their stories, which in the long-run will help them secure more funding' (grants and project manager, philanthropic funder 6).

These funders' efforts at 'educating' charities and 'constructing normative networks' via peer-group workshops and mentoring are forms of IW directed at creating new practice norms. They can also be interpreted as 'embedding and routinizing' IW directed at maintaining existing reporting practices that are perceived as desirable.

Further, the workshops promote ‘mimicry’ via sharing best practice and reinforcing accepted ways of reporting performance. Some good (legitimate) and bad (illegitimate) practices are held up as exemplars: ‘Some of the practices identified as delivering in a way that we’d like others to deliver may be highlighted in those workshops’ (family and community services manager, government funder 2). And ‘There is stubbornness…“this is just another funder-led initiative, you just want us to tick more boxes and we don’t have time for that’ (community trust and CSR manager, philanthropic funder 9). This profiling of positive and negative practice examples can be seen as ‘valourizing and demonizing’ IW directed at maintaining shared norms about what non-financial performance-reporting practices are acceptable.

In sum, the information requirements these key funders impose on charities are augmented with a variety of IW directed at creating, maintaining and disrupting institutionalized norms and practices around reporting non-financial performance information.

Discussion and conclusions

We set out to examine the accountability information needs of government and philanthropic funders and the mechanisms they use to ensure charities provide this information. The findings reveal that these key funders perceive a need for a variety of background, financial and, perhaps most importantly, non-financial performance information from charities. However, there were surprising findings related to non-financial performance information, notably: there was some disconnect between the information that is (coercively) *required* by these funders and the information perceived as *needed*; outputs information is seen as less important than outcomes information; the reporting of long-term outcomes is encouraged, despite the challenges of capturing long-term effects; and unintended outcomes are also perceived as necessary in telling a charity’s accountability story. The disclosure of unintended outcomes also seems likely to enable funder-charity dialogue and learning around innovation, and to further trust-building that can support the formal reporting aspects of accountability relationships.

Regarding how these funders elicit the accountability information they need, our findings revealed that both government and philanthropic funders not only impose reporting requirements, but also engage in IW to institutionalize what they see as appropriate performance-reporting behaviours. Regarding background and financial information, there was a close match between the required information and what is perceived by these funders as necessary. This suggests a mostly coercive approach to obtaining information. The limited IW done to influence institutionalized norms and practices around the reporting of background and financial information seems directed at creating and maintaining reporting rules, with no evidence of IW aimed at disrupting institutionalized norms and values. This suggests that the funders see little need for institutional change in regard to background and financial information reporting and are satisfied with currently available information.

The findings for non-financial performance information were rather different. First, there was less congruence between the coercively-required information and the information funders perceive as necessary. Notably, outputs information was less valued than its required status suggests, while two outcomes measures (long-term and unintended) were perceived as necessary and were promoted via funders’ IW. Second, the IW done in relation to non-financial performance information was more activity directed at disrupting and (re)creating institutionalized norms. This suggests a perceived need to change the institutional framework that shapes non-financial performance reporting.

Our paper makes several contributions to the literature on charity accountability. First, it is the only study to consider accountability information needs from the perspective of government and philanthropic funders. Second, the literature is largely based on the UK charity sector, so by exploring this issue in a New Zealand context, this paper provides an international perspective. Third, we analysed funders’ non-financial performance information needs in greater detail than previous studies, revealing the value funders place on reporting long-term and unintended outcomes. Finally, we extend prior literature by employing IW concepts to reveal funders’ efforts to influence charities’ accountability reporting norms and practices and elicit the accountability information they need.

Several implications for policy and practice are evident. First, there remains a perception among the studied funders that accountability information is weak in regard to non-financial performance, which is seen as crucial to charity-funder accountability relationships. This signals a need to improve this aspect of charity reporting. Further research is needed to compare the perspectives of charities and funders on this issue. Second, the findings offer insights into the roles of government and philanthropic funders in creating pressures for change, and diffusing accountability best practice throughout the charity sector. These insights signal the importance of the ongoing interactions between charities and funders, which form the arena for IW and for building trust relationships that can underpin accountability reporting. However, funders' actions influence only those charities they fund, leaving cross-sector variability in accountability reporting. This points to a third implication, i.e. the potential to develop more pervasive understandings of sector-appropriate reporting practices through, for example, training and evaluation, perhaps driven by regulators.

Finally, the findings suggest that the development of regulatory requirements around non-financial performance information is a positive step towards aligning charity regulation with funders' information needs. However, such regulation should accommodate the disclosure of unintended outcomes and it should emphasise longer-term outcomes and creative, narrative modes of disclosing them. Crawford *et al.* (2014) identified a need to develop international financial reporting standards for the NFP sector, but our findings suggest this convergence issue is perhaps even more critical for non-financial performance reporting due to its perceived importance in meeting key funders' information needs. This study can, therefore, inform future debate on the convergence and globalization of charity regulation and reporting practices.

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IMPACT

Key funders think charities' accountability information needs improvement in the area of non-financial performance. Regular interaction between the managers of charities and funding organizations appears important for building trust about accountability reporting. Also, more pervasive understandings of sector-appropriate reporting practices could be improved through enhanced training and evaluation of charities, perhaps driven by regulators. To better serve key funders' information needs, regulatory developments related to non-financial performance information could focus on the disclosure of innovative results and could emphasise longer-term outcomes and creative ways of disclosing them.

Judith Pinny

From: CARROLL, Rowan <Rowan.CARROLL@police.govt.nz>
Sent: Sunday, 25 June 2017 2:05 p.m.
To: submissions
Subject: Accounting for Heritage Submission

Tēnā koe I would like to make a submission on Heritage Reporting Standards.
Questions:

1. I agree with the description of Heritage items using the UNESCO definition
2. I believe that plants and organisms SHOULD be included in the definition. As species they deserve the same recognition of value and significance to Aotearoa as our man-made heritage.

6. Kaitiakitanga of taonga tuku iho in museum collections places spiritual guardianship in the hands of iwi. To have a valuation of the taonga in the accounting system of the museum may very well insult the kaitiaki. Consultation around this needs to happen as a priority.

9. I do not believe recognising some heritage items at $NZ1 has any value. However an overarching statement acknowledging significance would be helpful.

13. It is preferable that a seperate Heritage Standard is developed outside of the existing IPSAS standards, given the special status of taonga tuku iwi, the ihi, wehi and wana, wāhi tapu and other heritage sites of significance to Māori.

Noho ora mai rā

Rowan

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Te Whakaute: Me manaaki te tangata, rite tonu ki tāu e pai ai kia meatia e ngā tāngata ki a koe

AT A GLANCE
April 2017

IPSASB

Consultation Paper: Financial Reporting for Heritage in the Public Sector

This is an overview of the Consultation Paper (CP), *Financial Reporting for Heritage in the Public Sector.*

Project objectives:	This Consultation Paper (CP) asks constituents for their views on financial reporting for heritage in the public sector. The objective is to: • Improve financial reporting for heritage by public sector entities; and • Support the comparability of heritage-related information in general purpose financial reports (GPFRs), while providing information that users need for accountability and decision making. This is the first step towards guidance on heritage information in GPFRs.
The project stage:	The IPSASB issued this CP in April 2017.
Next steps:	The IPSASB seeks feedback to develop guidelines on recognition, measurement and presentation for heritage.
Comment deadline:	The CP is open for public comment until September 30, 2017.
How to respond:	Respondents are asked to submit their comments electronically through the IPSASB website, using the "Submit a Comment" link on the CP page. Please submit comments in both a PDF and Word file. All comments will be a matter of public record and will be posted on the website.

IPSASB®

Why has the IPSASB issued this Consultation Paper?

The IPSASB aims to improve financial reporting for heritage in the public sector, by considering the type of information that should be reported about heritage items and heritage-related responsibilities, including approaches to their recognition and measurement.

The holding of heritage items is a distinguishing feature of the public sector. Public sector entities preserve heritage on behalf of present and future generations. GPFR users may need information to:

- Hold entities accountable for their preservation of heritage items; and
- Make decisions on resources needed for heritage preservation.

Constituents indicated, in their responses to the IPSASB's 2014 strategy and work plan consultation, that better coverage of financial reporting for heritage should be an IPSASB priority.

IPSAS presently allows entities to report on heritage items using different practices. There are inconsistent practices with respect to classifying items as heritage. Heritage items may or may not be recognized in an entity's financial statements and different measurement approaches are used. This diversity has negative consequences for the public interest because it reduces the comparability of information reported in the financial statements.

This CP discusses financial reporting for heritage. It is an important step towards determining the appropriate reporting for heritage in the public sector. It is underpinned by *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework).

In this CP the IPSASB asks for constituents' views on:

- Identification of heritage items;
- Whether heritage items are assets for financial reporting purposes;
- Heritage asset recognition and measurement;
- Whether heritage-related obligations could be liabilities for financial reporting purposes; and
- Presentation of information on heritage items and related responsibilities.

What are heritage items?

Description: Heritage items are items that are intended to be held indefinitely and preserved for the benefit of present and future generations because of their rarity and/or significance.

IPSASB's preliminary view: Chapter 2 of the CP has the IPSASB's preliminary view on a description of heritage items that reflects their special characteristics and distinguishes them from other phenomena for the purposes of financial reporting.

Heritage items' rarity and/or significance are in relation, but not limited, to their archeological, architectural, agricultural, artistic, cultural, environmental, historical, natural, scientific or technological features.

Categories of heritage items: Heritage items could be cultural or natural heritage. Cultural heritage consists of man-made items that could be either tangible or intangible.

Tangible cultural heritage: Examples include:

- Monuments, archaeological sites, historic buildings, works of art, and scientific collections;
- Underwater cultural heritage, for example, underwater buildings or sunken ships; and
- Natural history collections such as collections of insects, or mineral collections.

Intangible cultural heritage consists of:

- *Knowledge-in-action*: Practices, representations, expressions, knowledge; and skills that are heritage items. Examples include languages and rituals.
- *Intellectual property* such as rights over recordings of significant historical events.

Natural heritage covers natural features or areas. Examples include mountains, lakes and waterfalls.

IPSASB®

Are heritage items assets?

The special characteristics of heritage items do not prevent them from being considered as assets.

Heritage items as assets

IPSASB's preliminary view: Chapter 3 of the CP has the IPSASB's preliminary view that the special characteristics of heritage items do not prevent them from being considered as assets for the purposes of financial reporting.

Conceptual Framework: This preliminary view draws on the Conceptual Framework, which defines an asset to be "a **resource** presently controlled by the entity as a result of a past event".

Resource: A resource is an item with service potential or the ability to generate economic benefits:

- Service potential is the capacity to provide services that contribute to achieving the entity's objectives, without necessarily generating net cash inflows.
- Economic benefits are cash inflows or a reduction in cash outflows, which may be derived from, for example, an asset's use in the production and sale of services.

Heritage items as controlled resources

Service potential could arise, for example, when an entity that holds heritage items:

- Has objectives that include heritage-related services such as providing access to heritage items; or
- Uses heritage items to provide services independent of their heritage characteristics. For example, a heritage building used for offices.

Economic benefits could arise, for example, when an entity that holds heritage items:

- Uses them in the production and sale of services;
- Sells tickets to view the heritage items; or
- Loans or rents them to other entities.

Control over a heritage resource exists if the entity:

- Can demonstrate legal ownership (for example through a purchase document);
- Has other enforceable rights; and/or
- Can direct its use to achieve its objective.

Should heritage assets be recognized in the financial statements?

Recognition: Heritage assets should be recognized in the statement of financial position if they meet the recognition criteria.

Measurement: In many cases it will be possible to assign a monetary value to heritage assets.

Subsequent measurement of heritage assets is broadly the same as subsequent measurement for other, non-heritage assets.

Recognition of heritage assets

IPSASB's preliminary views: Chapter 4 of the CP includes the IPSASB's preliminary views on recognition and measurement of heritage assets. Chapter 5 has its preliminary view on subsequent measurement.

Recognition involves existence of an asset and an ability to measure the asset.

Measurement of heritage assets involves:

- Attachment of a monetary value;
- Choice of an appropriate measurement basis that meets the measurement objective; and
- Determination of whether measurement achieves the qualitative characteristics, taking into account the constraints on information.

The **measurement objective** is to select those measurement bases that most fairly reflect the entity's:

- Cost of services,
- Operational capacity, and
- Financial capacity.

Measurement bases

Three measurement bases are identified to attach a monetary value to heritage assets:

- Historical cost;
- Market value; and
- Replacement cost.

Measurement objective and heritage assets

Initial measurement of heritage assets could provide useful information to assess:

- *Cost of services*: For example, the initial asset expenditure provides useful information about the cost of services where heritage assets are being used over time or restored to build a current collection.
- *Operational capacity*: Information on the monetary value of heritage assets may be useful to assess resources available for the entity's operations, including service delivery.
- *Financial capacity:* Heritage assets can appreciate in value over time or generate cash flows through, for example, access fees. The monetary value of heritage assets could be relevant to assessments of financial position.

Heritage-related obligations

The special characteristics of heritage items do not, of themselves, result in a present obligation such that an entity has little or no realistic alternative to avoid an outflow of resources.

Preservation of heritage items and obligations

Preservation of heritage items: The CP considers whether an intention to preserve heritage items for present and future generations could give rise to a present obligation.

Existence of a present obligation: The CP draws on the Conceptual Framework to consider this question, and notes that:

- A moral duty to preserve heritage items does not, by itself, give rise to a present obligation.
- A present obligation is binding, so that the entity has little or no realistic alternative to avoid it.
- An obligation must be to an external party.

Outflows of resources

Liabilities must involve both a present obligation and an outflow of resources. Chapter 6 of the CP notes that:

- Heritage items often involve outflows of resources to preserve heritage items for present and future generations.
- There could be *deferred* outflows of resources, by comparison to an agreed cycle of maintenance, for example.
- An ability to defer preservation resource outflows suggests that there is no present obligation.

Heritage-Related Past Events

There appears to be no reason why events that could indicate existence of an obligation should be accounted for in a different way, special to heritage.

Presentation of heritage-related information

Information on heritage items should be presented in line with existing IPSASB pronouncements.

Presentation of information on heritage items

The CP discusses whether the special characteristics of heritage items warrant special presentation.

Chapter 7 of the CP proposes that:

- The special characteristics of heritage items do not warrant presentation objectives specific to heritage.
- Existing IPSASB pronouncements, including Recommended Practice Guidelines can be applied.
- Materiality is considered when deciding:
    - Whether a line item for heritage assets should be displayed on the face of the financial statements; and
    - What information to disclose in the notes to the financial statements.

Heritage-related information

Heritage assets: Information on heritage assets might include:

- The main types of assets;
- How they are measured; and
- Resource outflows and inflows as a result of holding, acquiring and disposing of heritage assets.

Financial statements discussion and analysis: An entity could present information in its financial statements discussion and analysis or another GPFR.

The information presented on heritage could help users to understand the:

- Effect of heritage items on entity's operational capacity, cost of services and financial capacity;
- Extent of heritage holdings and heritage-related expenses; and
- Heritage custodial responsibilities and legislation on such responsibilities.

Next Steps

The deadline for comments is September 30, 2017.

During the comment period, IPSASB members are available to discuss the proposals with a wide range of parties.

How can I comment on the proposals?

The CP requests comments on both the Preliminary Views and the Specific Matters for Comment.

Respondents may provide comments and answers on all the Preliminary Views and all Specific Matters for Comment or just selected views or matters for comment. They are also welcome to comment on any other matter they think the IPSASB should consider in forming its views.

Respondents are asked to submit their comments electronically through the IPSASB website, using the "Submit a Comment" link. Please submit comments in both a PDF and Word file.

All comments will be considered a matter of public record and will be posted on the IPSASB website.

The IPSASB will consider all feedback and discuss responses at its public meetings after the comment period has ended.

Stay informed

The IPSASB's website will indicate the meetings at which feedback on the CP will be discussed. The dates, and, where known, the locations of 2017 and 2018 meetings are at:

http://www.ipsasb.org/meetings

To stay up to date about the project, please visit:

http://www.ipsasb.org/projects/heritage

Consultation Paper
April 2017
Comments due: September 30, 2017

IPSAS®

Proposed International Public Sector Accounting Standard ®

Financial Reporting for Heritage in the Public Sector

IPSASB International Public Sector Accounting Standards Board®

This document was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening the transparency and accountability of public sector finances.

In meeting this objective, the IPSASB sets International Public Sector Accounting Standards™ (IPSAS™) and Recommended Practice Guidelines (RPGs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

IPSAS relate to the general purpose financial statements (financial statements) and are authoritative. RPGs are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. Unlike IPSAS, RPGs do not establish requirements. Currently all pronouncements relating to GPFRs that are not financial statements are RPGs. RPGs do not provide guidance on the level of assurance (if any) to which information should be subjected.

The structures and processes that support the operations of the IPSASB are facilitated by the International Federation of Accountants® (IFAC®).

Executive Summary

Currently there are a variety of practices for the financial reporting of heritage in different jurisdictions. IPSAS 17, *Property, Plant and Equipment*, allows public sector entities to choose the accounting approach they use, including whether to recognize heritage items as assets in the financial statements and, if so, the measurement base applied. This diversity reduces comparability between public sector entities. Financial reporting practices may not provide the information that users of general purpose financial reports (GPFRs) need for accountability and decision making.

This Consultation Paper (CP) asks constituents for their views on financial reporting for heritage in the public sector. Views will support the IPSASB's work to consider the need to develop additional guidance on financial reporting for heritage, in order to meet the needs of users of GPFRs for information for the purposes of accountability and decision making.

For the purposes of this CP, heritage items are described as "items that are intended to be held indefinitely and preserved for the benefit of present and future generations because of their rarity and/or significance in relation, but not limited, to their archeological, architectural, agricultural, artistic, cultural, environmental, historical, natural, scientific or technological features."

This CP discusses whether heritage items meet the definition of an asset and whether they can be measured and recognized in the financial statements. This CP also considers whether heritage preservation responsibilities could involve present obligations for entities, which should be recognized as liabilities in the financial statements. It discusses presentation of information for heritage in financial statements and other GPFRs.

The CP proposes that the special characteristics of heritage items do not prevent them from being considered as assets for the purposes of financial reporting, and that they should be recognized in the statement of financial position if they meet the recognition criteria in the Conceptual Framework. In many cases it will be possible to assign a monetary value to heritage assets. Appropriate measurement bases are historical cost, market value and replacement cost. Subsequent measurement of heritage assets can be approached in broadly the same way as subsequent measurement for other, non-heritage assets.

The CP also proposes that an intention to preserve heritage items for present and future generations, does not, of itself, result in a present obligation such that an entity has little or no realistic alternative to avoid an outflow of resources and should therefore recognize a liability. An entity should present heritage-related information in line with existing IPSASB pronouncements.

REQUEST FOR COMMENTS

This Consultation Paper, *Financial Reporting for Heritage in the Public Sector*, was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

Comments are requested by September 30, 2017

Respondents are asked to submit their comments electronically through the IPSASB website, using the "Submit a Comment" link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will be posted on the IPSASB website. This publication may be downloaded from the IPSASB website: www.ipsasb.org. The approved text is published in the English language.

Guide for Respondents

The IPSASB welcomes comments on all of the matters discussed in this Consultation Paper, including all Preliminary Views (PVs) and Specific Matters for Comment (SMCs). Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate and contain a clear rationale.

The PVs and SMCs in this Consultation Paper are provided below. Paragraph numbers identify the location of the PV or SMC in the text.

Specific Matters for Comment—Chapter 1 (following paragraph 1.8)

Do you agree that the IPSASB has captured all of the characteristics of heritage items and the potential consequences for financial reporting in paragraphs 1.7 and 1.8?

If not, please give reasons and identify any additional characteristics that you consider relevant.

Preliminary View––Chapter 2.1 (following paragraph 2.11)

For the purposes of this CP, the following description reflects the special characteristics of heritage items and distinguishes them from other phenomena for the purposes of financial reporting:

> Heritage items are items that are intended to be held indefinitely and preserved for the benefit of present and future generations because of their rarity and/or significance in relation, but not limited, to their archeological, architectural, agricultural, artistic, cultural, environmental, historical, natural, scientific or technological features.

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons.

Preliminary View––Chapter 2.2 (following paragraph 2.12)

For the purposes of this CP, natural heritage covers areas and features, but excludes living plants and organisms that occupy or visit those areas and features.

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons.

Preliminary View—Chapter 3 (following paragraph 3.11)

The special characteristics of heritage items do not prevent them from being considered as assets for the purposes of financial reporting.

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons.

Specific Matters for Comment—Chapter 4.1 (following paragraph 4.17)

Do you support initially recognizing heritage assets at a nominal cost of one currency unit where historical cost is zero, such as when a fully depreciated asset is categorized as a heritage asset then transferred to a museum at no consideration, or an entity obtains a natural heritage asset without consideration?

If so, please provide your reasons.

Preliminary View—Chapter 4.1 (following paragraph 4.40)

Heritage assets should be recognized in the statement of financial position if they meet the recognition criteria in the Conceptual Framework.

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons.

Specific Matters for Comment—Chapter 4.2 (following paragraph 4.40)

Are there heritage-related situations (or factors) in which heritage assets should not initially be recognized and/or measured because:

(a) It is not possible to assign a relevant and verifiable monetary value; or

(b) The cost-benefit constraint applies and the costs of doing so would not justify the benefits?

If yes, please describe those heritage-related situations (or factors) and why heritage assets should not be recognized in these situations.

Preliminary View—Chapter 4.2 (following paragraph 4.40)

In many cases it will be possible to assign a monetary value to heritage assets. Appropriate measurement bases are historical cost, market value and replacement cost.

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons.

Specific Matters for Comment—Chapter 4.3 (following paragraph 4.40)

What additional guidance should the IPSASB provide through its Public Sector Measurement Project to enable these measurement bases to be applied to heritage assets?

Preliminary View – Chapter 5 (following paragraph 5.14)

Subsequent measurement of heritage assets:

(a) Will need to address changes in heritage asset values that arise from subsequent expenditure, consumption, impairment and revaluation.

(b) Can be approached in broadly the same way as subsequent measurement for other, non-heritage assets.

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons.

Specific Matters for Comment—Chapter 5 (following paragraph 5.14)

Are there any types of heritage assets or heritage-related factors that raise special issues for the subsequent measurement of heritage assets?

If so, please identify those types and/or factors, and describe the special issues raised and indicate what guidance IPSASB should provide to address them.

Preliminary View—Chapter 6 (following paragraph 6.10)

The special characteristics of heritage items, including an intention to preserve them for present and future generations, do not, of themselves, result in a present obligation such that an entity has little or no realistic alternative to avoid an outflow of resources. The entity should not therefore recognize a liability.

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons.

Preliminary View—Chapter 7 (following paragraph 7.9)

Information about heritage should be presented in line with existing IPSASB pronouncements.

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons and describe what further guidance should be provided to address these.

FINANCIAL REPORTING FOR HERITAGE IN THE PUBLIC SECTOR

CONTENTS

Chapter 1, Introduction to Financial Reporting for Heritage in the Public Sector

Introduction

1.1 *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) identifies the holding of heritage items as a distinguishing feature of the public sector[1]. This consultation paper (CP) discusses financial reporting for heritage in the public sector and considers different approaches to address the information needs of users of general purpose financial reports (GPFRs), as a basis for consultation with those interested in how GPFRs can support accountability and decision making for heritage. Where the IPSASB has reached a preliminary view on a heritage-related financial reporting issue, the view is provided, along with discussion to explain how the IPSASB reached its view.

The IPSASB's Heritage Project

1.2 The IPSASB first considered heritage accounting during development of IPSAS 17, *Property, Plant and Equipment* (IPSAS 17), which includes paragraphs on accounting for heritage assets. IPSAS 17 describes heritage assets and allows entities to recognize them. If an entity recognizes some or all of its heritage assets, then it needs to make disclosures identified in the Standard. However, entities are not required to apply IPSAS 17's measurement requirements. The IPSASB took a similar approach in IPSAS 31, *Intangible Assets* (IPSAS 31), which has paragraphs on accounting for intangible heritage assets, based on those in IPSAS 17. In effect, the IPSASB's approach in these two Standards acknowledged the difficult financial reporting issues raised by heritage items, and allowed preparers to determine how to account for heritage until this topic could be considered in depth.

1.3 In 2004 the IPSASB commenced a heritage assets project in collaboration with the United Kingdom's Accounting Standards Board (the ASB-UK). A CP, *Accounting for Heritage Assets under the Accrual Basis of Accounting*, was published in February 2006. The CP consisted of a discussion paper developed and approved by the ASB-UK, with an introduction and preface developed by the IPSASB's Heritage Assets Subcommittee. After reviewing submissions in late 2006, the IPSASB decided to defer further work until completion of its Conceptual Framework.

1.4 After completion of the Conceptual Framework in 2014, the IPSASB decided to reconsider financial reporting for heritage in the public sector. IPSASB constituents had indicated, in response to the 2014 strategy and work plan consultation, that developing coverage of financial reporting for heritage in its pronouncements should be an IPSASB priority.

Challenges of Financial Reporting for Heritage

1.5 Worldwide there are different views on what items are heritage items; whether heritage items are assets or liabilities for financial reporting purposes; whether they should be recognized in the financial statements; and, if recognized, how they should be measured. Standard setters have also had different views on the presentation of information about heritage items, where presentation covers both:

(a) Enhanced disclosures in the financial statements; and,

[1] See, for example, paragraph 15 of the preface to the Conceptual Framework.

(b) Presentation of information in other general purpose financial reports (GPFRs) that provide information which enhances, complements, and supplements the financial statements.

1.6 The financial reporting challenges may vary between countries. These challenges include the extent of funding available for heritage valuation, availability of valuation expertise and the place of heritage within competing government priorities. The main type of heritage for some countries could be natural heritage, while for others the primary focus could be historic buildings, infrastructure and artifacts dating back thousands of years.

Characteristics of Heritage Items

1.7 Characteristics of heritage items include that:

(a) They are often irreplaceable;

(b) There are often ethical, legal and/or statutory restrictions or prohibitions that restrict or prevent sale, transfer or destruction by the holder or owner; and

(c) They are expected to have a long, possibly indefinite, useful life due to increasing rarity and/or significance.

1.8 These characteristics of heritage items may have consequences for financial reporting for heritage in the following areas:

(a) *Measurement:* Is it possible to measure heritage items in a way that reflects their service potential or their ability to generate economic benefits?

(b) *Value:* If assignment of monetary values does not convey the heritage significance of heritage items or their future claims on public resources, would users of GPFRs benefit more from non-financial information about heritage items, reported outside the financial statements?

(c) *Preservation*: If an entity's responsibility is to preserve heritage items rather than to generate cash flows from them, are heritage items resources or obligations from the entity's perspective?

(d) *Restrictions on use:* Given restrictions on entities' ability to use, transfer or sell heritage items, should heritage items be shown as assets in the financial statements?

(e) *Benefits to others:* Can a reporting entity be said to control a heritage item for financial reporting purposes, when it is held for the benefit of current and future generations?

Specific Matters for Comment—Chapter 1

Do you agree that the IPSASB has captured all of the characteristics of heritage items and the potential consequences for financial reporting in paragraphs 1.7 and 1.8?

If not, please give reasons and identify any additional characteristics that you consider relevant.

The Public Interest and Financial Reporting for Heritage

1.9 Given these financial reporting challenges and the special characteristics of heritage, the question arises of what heritage-related information users of GPFRs need for the purposes of accountability and decision making. Users may need information to:

(a) Hold entities accountable for their preservation of heritage items; and

(b) Make decisions on resources needed for heritage preservation.

1.10 The purpose for which an entity holds heritage items could impact on the information that users of GPFRs need. For example, where an entity uses heritage items in its operations, users may need information for decision making on the entity's operational capacity and cost of services. This could have implications for information available to users for the purposes of accountability and decision making related to the entity as a whole.

1.11 As noted in paragraph 1.2 above, IPSAS presently allows entities to report on heritage items using different financial reporting practices. Worldwide there are inconsistent practices with respect to categorization of assets as either heritage or non-heritage, heritage items may or may not be recognized in an entity's financial statements and a variety of different measurement approaches are used. This has negative consequences for the public interest because it reduces the comparability of information reported.

1.12 This CP discusses financial reporting for heritage in light of constituents' concerns. It considers whether or not additional financial reporting requirements and/or guidelines are necessary, including scope for information in the financial statements and/or in other GPFRs. The IPSASB will take decisions on the nature and extent of any additional requirements in the context of feedback from constituents.

Approach in this Consultation Paper

1.13 This CP draws on the Conceptual Framework to discuss financial reporting for heritage in the public sector. It considers what heritage-related information users of GPFRs need for the purposes of accountability and decision making, where such information should achieve the qualitative characteristics of information reported in GPFRs[2]. This CP draws on the Conceptual Framework's coverage of element definition, recognition and measurement, to consider whether heritage items could result in elements that should be recognized in the financial statements. Financial statement presentation issues are also discussed, drawing on the Conceptual Framework's approach to presentation, whereby presentation in the financial statements encompasses both the display and disclosure of information. Although this CP's primary focus is on information presented in the financial statements, it also notes scope to present information in other GPFRs, for example service performance information reported when an entity has heritage-related service performance objectives.

1.14 While the Conceptual Framework underpins this CP's consideration of financial reporting for heritage in the public sector, the IPSASB has also considered national standard setters' and the IPSASB's own pronouncements. In addition to IPSAS 17 and IPSAS 31, IPSAS 19, *Provisions, Contingent Assets and Contingent Liabilities* and the IPSASB's recommended practice guidelines (RPGs), which address information in other GPFRs, have been considered for their relevance to this project.

Structure of this Consultation Paper

1.15 This CP covers financial reporting for heritage in the following order:

(a) Chapter 2 describes heritage items and discusses issues related to their identification;

[2] The qualitative characteristics of information included in GPFRs are the attributes that make that information useful to users and support the achievement of the objectives of financial reporting. The qualitative characteristics are relevance, faithful representation, understandability, timeliness, comparability, and verifiability. (See paragraphs 3.1 and 3.2 of the Conceptual Framework.)

(b) Chapter 3 discusses whether or not heritage items could be assets for financial reporting purposes;

(c) Chapter 4 discusses the recognition and initial measurement of heritage assets;

(d) Chapter 5 examines subsequent measurement;

(e) Chapter 6 considers obligations related to heritage items and discusses their recognition and measurement; and

(f) Chapter 7 discusses presentation of information on heritage items in the financial statements and in other GPFRs.

Chapter 2, Descriptions of Heritage

Introduction

2.1. This chapter considers what heritage is, discusses heritage identification issues, and then proposes a description of "heritage items", as a basis for subsequent discussion of financial reporting for heritage in the public sector. This chapter does not consider whether heritage items are assets from the perspective of a reporting entity, which is discussed in Chapter 3.

Heritage

2.2. There are different views on what is meant by "heritage" and, consequently, what things should be identified as heritage items. United Nations Educational, Scientific and Cultural Organization (UNESCO) international conventions for heritage protection have defined heritage and different categories of heritage[3]. These definitions emphasize the importance, significance and/or value of heritage items, highlighting their sacred or historic nature and their rarity. 192 countries have ratified the UNESCO convention on protection of world heritage sites[4] and therefore the UNESCO meaning of heritage would appear to be widely accepted.

2.3. UNESCO classifies heritage as cultural and natural. The remainder of the discussion in this chapter uses these UNESCO categories as a basis for developing a description of heritage items for the purpose of financial reporting.

Cultural Heritage

2.4. Cultural heritage consists of man-made heritage items that could be either tangible or intangible. Examples of tangible cultural heritage include:

(a) Monuments, archaeological sites, historic buildings, works of art, and scientific collections;

(b) Underwater cultural heritage, for example, buildings that are beneath the water or sunken ships; and

(c) Natural history collections such as collections of insects, or mineral collections.

2.5. UNESCO defines intangible cultural heritage as, what this CP will call, "knowledge-in-action". To align with financial reporting terminology, this CP also considers "intellectual property" as a second type of intangible cultural heritage:

(a) Knowledge-in-action consists of practices, representations, expressions, knowledge; and skills that are heritage items. Examples include languages, performing arts, rituals, and traditional craftsmanship.

(b) Intellectual property includes rights over recordings of significant historical events and rights to use culturally significant films.

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[3] Article 1, 1954 *Convention for the Protection of Cultural Property in the Event of Armed Conflict with Regulations for the Execution of the Convention* defines "cultural property", as does Article 1 of the 1970 *Convention on the Means of Prohibiting and Preventing the Illicit Import, Export and Transfer of Ownership of Cultural Property*. Article 1 of the 1972 *Convention on Protecting the World Cultural and Natural Heritage* defines "cultural heritage" and "natural heritage". Article 1, 2001 *Convention on Safeguarding the Underwater Cultural Heritage*, defines "underwater cultural heritage". Article 2, 2003 *Convention on Safeguarding the Intangible Cultural Heritage*, defines "intangible cultural heritage".

[4] 1972 Convention on Protecting the World Cultural and Natural Heritage

Natural Heritage

2.6. Natural heritage covers natural features or areas. Examples include natural features such as mountains, naturally occurring rock formations, and bodies of water such as lakes or waterfalls.

Heritage Item Identification Issues

2.7. Some jurisdictions have developed different ways to identify heritage items. For example:

(a) Schedules or lists enshrined in legislation or regulation;

(b) Criteria or principles enshrined in legislation or regulation;

(c) A defined review and approval process, involving expert recommendation and independent review; or

(d) A combination of two or more of the three approaches above.

2.8. However, reliance only on legislation that identifies specific items as heritage presents two potential problems:

(a) A legislated list of heritage items could either exclude items that are, in substance, heritage items, or include items that are not, in substance, heritage items. For example, legislation may list only those heritage items that warrant special funding or a special level of protection, so that other heritage items are not listed.

(b) A legislated list may not remain up-to-date. For example, "new" heritage items may be identified and not be captured by the list, because, after enactment of the legislation, they are:

(i) Purchased or received through donation;

(ii) Discovered, for example through excavations that uncover previously unknown heritage items or through reassessments of items that were not viewed as heritage items; or

(iii) Created, for example through construction of an iconic building.

2.9. Given these problems with legislated lists of heritage items, other sources of information are needed to provide comprehensive and verifiable information on whether items are heritage items, such as:

(a) Expert knowledge;

(b) Historical studies, research writings and media reports; or

(c) Established policies, systems and/or structures, which indicate that an entity expects to hold and preserve the item for present and future generations as a heritage item.

2.10. Although there is a view that identification of heritage items should be based on legislation, global disparities in approach mean that developing a description of heritage items for financial reporting purposes is necessary. This description identifies the special characteristics of heritage items that distinguish them.

Description of Heritage Items

2.11. Given the special characteristics of heritage identified in the UNESCO conventions, and the discussion above on a principles-based approach to identification of heritage items, the IPSASB has developed the following preliminary view:

Preliminary View––Chapter 2.1

For the purposes of this CP, the following description reflects the special characteristics of heritage items and distinguishes them from other phenomena for the purposes of financial reporting:

Heritage items are items that are intended to be held indefinitely and preserved for the benefit of present and future generations because of their rarity and/or significance in relation, but not limited, to their archeological, architectural, agricultural, artistic, cultural, environmental, historical, natural, scientific or technological features.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons.

2.12. UNESCO conventions include living plants and organisms within natural heritage. However, individual living plants and organisms cannot be held indefinitely and preserved for present and future generations, and do not meet the proposed description of heritage items. On this basis they are excluded from further discussion in this CP.

Preliminary View––Chapter 2.2

For the purposes of this CP, natural heritage covers areas and features, but excludes living plants and organisms that occupy or visit those areas and features.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons.

Chapter 3, Heritage Items as Assets

Introduction

3.1. This chapter considers whether heritage items could be assets for financial reporting purposes. The Conceptual Framework states that an asset is "a resource presently controlled by the entity as a result of a past event[5]." This chapter discusses each of these three aspects (resources, control and past event) in the context of heritage items, focusing particularly on the resource and control aspects. Where an asset exists it must also be measurable, before it can be recognized in financial statements, and this is considered in Chapter 4.

Heritage Items as Resources

3.2. The Conceptual Framework states that a resource is an item with service potential or the ability to generate economic benefits[6]. Service potential is the capacity to provide services that contribute to achieving the entity's objectives, without necessarily generating net cash inflows[7]. Economic benefits are cash inflows or a reduction in cash outflows[8], which may be derived from, for example, an asset's use in the production and sale of services[9]. Heritage items appear more likely to be held for their service potential rather than their ability to generate economic benefits[10]. Therefore, the discussion below focuses primarily on service potential.

3.3. Public sector entities' objectives can include providing services either directly or indirectly to individuals or institutions. The objectives of an entity holding heritage items may include, for example:

(a) Providing access to heritage items directly to individuals (for their education, appreciation, etc.);

(b) Holding heritage items indefinitely in a custodial capacity;

(c) Preserving heritage items to benefit the whole community; or

(d) Promoting heritage-related tourism.

3.4. Heritage items may also provide services that contribute to achievement of an entity's objectives, for reasons other than their heritage characteristics. For example, a heritage building can be used as office space.

Heritage Items with Ability to Generate Economic Benefits

3.5. Some heritage items may be able to generate economic benefits for the reporting entity. Economic benefits could arise, for example, through one or more of the following:

(a) Use of the heritage item in the production and sale of services;

(b) Sale of tickets to view the heritage items and/or sale of related merchandising; and

(c) Loan or rent of the item to other entities.

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5 Paragraph 5.6 of the Conceptual Framework.

6 Paragraph 5.7 of the Conceptual Framework.

7 Paragraph 5.8 of the Conceptual Framework.

8 Paragraph 5.10 of the Conceptual Framework.

9 Ibid.

10 The Conceptual Framework refers to heritage assets in its discussion of service potential in paragraph 5.9.

Control of a Heritage Resource

3.6. The Conceptual Framework states that: "Control of the resource entails the ability of the entity to use the resource (or direct other parties on its use) so as to derive the benefit of the service potential or economic benefits embodied in the resource in the achievement of its service delivery or other objectives[11]."

3.7. An entity is likely to have the ability to control heritage resources when it can demonstrate some or all of the following:

(a) Legal ownership—for example through a purchase document or deed of transfer, etc.

(b) Other enforceable rights given to an entity that give it the ability to access or deny or restrict access. For example, an entity might:

(i) Decide whether to set an entrance fee to a museum and deny access to those who do not pay the fee;

(ii) Prohibit the use of a public square for commercial purposes; or

(iii) Grant other entities limited reproduction rights to a heritage film or audio-recording.

(c) Direct the use of heritage resources to achieve the entity's objectives, as discussed in paragraphs 3.3 and 3.4.

Inability to Control Knowledge-in-Action Intangible Cultural Heritage

3.8. As explained in Chapter 2, one subcategory of intangible cultural heritage called "knowledge-in-action" consists of heritage items such as languages, performing arts, rituals, and traditional craftsmanship. These heritage items require continued use or enactment by living people to exist and be preserved for future generations. They fall into the description of a heritage item, but they cannot be controlled by a single entity. This is because an entity cannot gain legal ownership over people's on-going enactment of this type of cultural heritage, cannot restrict or deny access, cannot use the resource to achieve its objectives (except in the sense that something such as a shared language is a resource for everyone's use) and it is impossible to hold an enforceable right to service potential or the ability to generate economic benefits arising from this type of heritage item. Knowledge-in-action intangible cultural heritage is "owned" by a whole community. Therefore, because it cannot be controlled by an entity, this type of intangible cultural heritage does not meet the definition of an asset.

Past Event for Present Control over Heritage Resources

3.9. The Conceptual Framework describes the type of past event that could indicate that the entity presently controls a resource[12]. Past events that could indicate that an entity controls a heritage resource include:

(a) Purchase from an external party;

(b) Receipt through a non-exchange transaction such as donation, confiscation or nationalization;

[11] Paragraph 5.11 of the Conceptual Framework.

[12] Paragraph 5.13 of the Conceptual Framework.

(c) Passing of legislation and/or signing of treaties (supported by international law) that establish a government's rights to heritage items, including rights over otherwise unclaimed lands of natural significance or otherwise contested lands, waterways and/or bodies of water; and

(d) Construction or development.

Heritage Items as Assets

3.10. From the discussion in this chapter it appears that, drawing on the Conceptual Framework, the special characteristics of heritage items[13] do not prevent them being:

(a) Resources;

(b) Presently controlled by an entity;

(c) As a result of a past event.

3.11. The IPSASB has therefore developed the following preliminary view:

Preliminary View—Chapter 3

The special characteristics of heritage items do not prevent them from being considered as assets for the purposes of financial reporting.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons.

3.12. The next chapter will consider whether heritage assets can be measured and recognized for the purposes of financial reporting.

[13] Chapter 2's description of heritage items describes the special characteristics of heritage items that distinguish them from other phenomena for the purposes of financial reporting.

Chapter 4, Recognition and Initial Measurement of Heritage Assets

Introduction

4.1. This chapter draws on the guidance in the Conceptual Framework to evaluate whether heritage items can meet the recognition criteria for assets. Chapter 3 concluded that the special characteristics of heritage items do not prevent them from being considered as assets, which is the first criterion for recognition. Therefore, this chapter focuses on the second recognition criterion, measurability at initial recognition[14]. Subsequent measurement is considered in Chapter 5.

Recognition in the Conceptual Framework

4.2. Recognition is the process of incorporating and including an item in amounts displayed on the face of the appropriate financial statement[15]. The recognition criteria are that:

(a) An item satisfies the definition of an element; and

(b) Can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in GPFRs[16].

4.3. The Conceptual Framework states that measurement involves[17].

(a) Attachment of a monetary value to the item;

(b) Choice of an appropriate measurement basis that meets the measurement objective; and

(c) Determination of whether the measurement of the item achieves the qualitative characteristics, taking into account the constraints on information in GPFRs, including that the measurement is sufficiently relevant and faithfully representative for the item to be recognized in the financial statements.

4.4. The objective of measurement is to select those measurement bases that most fairly reflect the cost of services, operational capacity and financial capacity of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes[18].

Heritage Assets and the Measurement Objective

4.5. The following paragraphs discuss the measurement objective in the context of heritage assets.

Cost of Services

4.6. An entity's cost of services should reflect the amount of resources expended to acquire, develop and preserve heritage assets used in the provision of services. While many heritage assets are used to provide services but are not 'consumed' (e.g. conservation land, museum collections and art), some heritage assets may depreciate such that those costs could also be relevant. Where heritage assets are being used over time (e.g. buildings) or faithfully restored or purchased to build a current

[14] This chapter's discussion of initial recognition focuses on an entity's initial recognition on acquisition of heritage items rather than initial recognition on first time adoption of accrual basis IPSASs.

[15] Paragraph 6.1 of the Conceptual Framework.

[16] Paragraph 6.2 of the Conceptual Framework.

[17] Paragraph 6.7 of the Conceptual Framework.

[18] Paragraph 7.2 of the Conceptual Framework.

collection, the initial asset expenditure is important and does provide useful information about the cost of services.

Operational capacity

4.7. By assigning an appropriate monetary value to heritage assets[19], the resulting information may be useful for users' assessments of the resources required to provide services and available for the entity's operations, which include delivery of services in future periods. Operational capacity relates to a range of services, as discussed in Chapter 3 (paragraphs 3.3 and 3.4)[20].

Financial capacity

4.8. Heritage assets can appreciate in value over time or generate cash flows through, for example, access fees, and thereby contribute to an entity's financial capacity. Information on the monetary value of heritage assets could also be viewed as relevant to assessments of the entity's financial position. Inclusion of such information can provide information that is more faithfully representative of financial capacity.

4.9. Heritage assets' contribution to an entity's financial capacity may not be the primary focus for users, because heritage assets are not normally expected to raise funds through sale or as security for borrowings. In many situations the generation of cash will not have a direct relationship (or even any relationship) with the monetary value of the heritage assets. Where heritage assets cannot be sold and the cash they generate for the entity is much less that their monetary value some would argue that their measurement and recognition will overstate an entity's financial capacity.

Measurement of Heritage Assets and their Symbolic Value

4.10. Some argue that a monetary value cannot show the value of heritage assets, which is their heritage significance. From this perspective, either a monetary value understates the heritage assets' value in terms of service potential[21] or incorrectly implies that heritage significance can be represented with a monetary value. These are the arguments in favor of a "symbolic value" for heritage assets, which could be one currency unit.

Measurement Bases

4.11. The Conceptual Framework provides guidance on the selection of a measurement basis, rather than proposing a single measurement basis (or combination of bases) for all transactions, events and conditions. It identifies the following measurement bases for assets[22].

(a) Historical cost;

(b) Market value;

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[19] Chapter 5 discusses subsequent expenditure. The same arguments for assignment of a monetary value are expected to apply to subsequent expenditure on heritage assets, where subsequent expenditure meets recognition criteria or, at standards level, specific criteria (appropriate to the type of asset) for capitalization versus expense.

[20] The Conceptual Framework describes operational capacity as "the physical and other resources currently available to support the provision of services in future periods" (paragraph 2.11) and "the capacity of the entity to support the provision of services in future periods through physical and other resources" (paragraph 7.3).

[21] The IPSASB's Public Sector Measurement Project is expected to consider measurement of service potential as one part of a broad consideration of measurement in IPSASs. Its recommendations could have implications for the valuation of heritage assets.

[22] Chapter 7 of the Conceptual Framework.

(c) Replacement cost;

(d) Net selling price; and

(e) Value in use.

4.12. This section discusses the five measurement bases noted above, in the context of heritage assets, considering whether the resulting information is relevant to assessments of the cost of services, operational capacity and financial capacity.

Historical Cost

4.13. The Conceptual Framework describes historical cost information as relevant to assessments of cost of services, operational capacity and financial capacity, and as often being straightforward to apply, because information on the cost at acquisition is usually readily available.

4.14. Historical cost is likely to be available to measure heritage assets that have been purchased recently. Where historical cost information is unavailable – because, for example, heritage assets were acquired through a donation – or historical cost information has been lost, another measurement basis such as market value or replacement cost may be obtainable.

4.15. Where historical cost information is available but so old that it may not provide relevant information for achievement of the measurement objective, other measurement bases may be more appropriate.

4.16. Some take the view that there are cases where initial historical cost is zero; for example where an asset was fully depreciated before being categorized as a heritage asset and transferred to the entity, or where an entity obtains a natural heritage asset without consideration. In such cases if the controlling entity intends to incur subsequent capital expenditure, which is not separable from the underlying asset, they propose that a nominal cost of one currency unit should be used at initial recognition.

4.17. Those who support this approach consider that it provides useful information. They consider that this approach differs from symbolic value and is consistent with an historical cost approach. Those who do not support this approach argue that it does not provide information that is useful for decision-making and accountability purposes.

Specific Matters for Comment—Chapter 4.1

Do you support initially recognizing heritage assets at a nominal cost of one currency unit where historical cost is zero, such as when an asset was fully depreciated before being categorized as a heritage asset and transferred to the entity, or an entity obtains a natural heritage asset without consideration?

If so, please provide your reasons.

Market Value

4.18. Market values will be available for some heritage assets, through reference to the market values of similar items, if an active, open and orderly market exists. A market value generally supports information about operational and financial capacity.

4.19. However, market values in an active, open and orderly market may not be available in some circumstances. Many heritage assets have restrictions on their sale and/or disposal, which reduces the availability of market values. Where heritage assets are unique meaningful market values are unlikely to be available for them. Some heritage items, such as artwork and items of archeological significance, are bought and sold through specialist markets, including auction houses. However, the market may not be sufficiently active, open and orderly to generate representationally faithful market values. Therefore, market values could be inappropriate in these circumstances.

Replacement Cost

4.20. The Conceptual Framework defines replacement cost to be the "optimized depreciated replacement cost", which is: "The most economic cost required for the entity to replace the service potential of an asset[23]."

4.21. Replacement cost relies on the existence of other assets that would provide the same service potential as the heritage asset being valued. Where a replacement cost is available for heritage assets, it could provide useful information for assessments of cost of services, operational and financial capacity. For heritage assets used in an entity's operations, replacement costs that reflect their value in terms of their operational use appear likely to be available and relevant. For example, a replacement cost for a heritage building used as office space could be found through reference to market values of other office buildings of a similar size and functionality. However, a replacement cost will not be available for some heritage assets, because they are irreplaceable.

4.22. The Conceptual Framework notes that there may be cases where replacement cost equates to estimated reproduction cost, because the most economical way of replacing service potential is to reproduce the asset[24]. Restoration would aim to reproduce, as closely as possible, the heritage aspects of the original item. Restoration cost could be more relevant when optimized replacement cost could be inappropriate, because the heritage asset's service potential is embodied in heritage aspects such as a historic appearance, rather than in an optimized modern equivalent.

Net Selling Price

4.23. The Conceptual Framework describes net selling price as being useful where the most resource-efficient course available to the entity is to sell the asset. It is not an appropriate measurement base if the entity is expected to be able to use the resource more efficiently by employing it in another way, for example by using it in the delivery of services.

4.24. Heritage assets are expected to be held and preserved rather than sold, and their value usually relates to their service potential[25]. Therefore, net selling price generally does not provide relevant measurement information for heritage assets. However, if an entity is able to sell its heritage assets and plans to do so, net selling price may be an appropriate measurement base.

Value in Use

4.25. The Conceptual Framework explains that value in use is appropriate where it is less than the replacement cost of the resource and greater than the net selling price. The operationalization of value in use for non-cash-generating assets involves the use of replacement cost as a surrogate. Many heritage assets are non-cash-generating assets, so in these cases value-in-use would be equivalent to replacement cost.

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[23] Paragraphs 7.40, 7.47 and footnote 14 of the Conceptual Framework.

[24] Footnote 14 of the Conceptual Framework.

[25] Arguably, where an entity does not intend to hold heritage items indefinitely they cease to meet the special characteristics of heritage items, and accounting for them would be covered by existing IPSAS.

Measurement and the Qualitative Characteristics and Constraints

4.26. This section considers whether heritage items' special characteristics[26] have implications for the ability to measure heritage assets in a way that achieves the qualitative characteristics and takes account of the constraints on information in GPFRs. The qualitative characteristics of information included in GPFRs of public sector entities are relevance, faithful representation, understandability, timeliness, comparability, and verifiability. Pervasive constraints on information included in GPFRs are materiality, cost-benefit, and achieving an appropriate balance between the qualitative characteristics.

Relevance and Representational Faithfulness of Monetary Values on Heritage Assets

4.27. The Conceptual Framework explains that information is relevant if it is capable of making a difference in achieving the objectives of financial reporting. Information is capable of making a difference when it has confirmatory value, predictive value, or both. Information on the monetary value of heritage assets that entities hold supports users' ability to make decisions about entities' resources and hold entities accountable for their stewardship of heritage assets. Therefore, such information appears likely to achieve the qualitative characteristics of relevance. Monetary values for heritage assets also appear likely to provide information that supports users' assessments of entities' operational capacity and cost of services. The extent to which monetary values for heritage assets achieve the qualitative characteristic of representational faithfulness depends on the choice of measurement bases combined with other factors. For example, initial monetary values are likely to be representationally faithful in these circumstances[27]:

(a) *Historical cost*: Where transaction information is available;

(b) *Replacement cost*: Where replacement cost can be estimated simply and subjective judgments are not required; and

(c) *Market value*: Where values are determined in an open, active and orderly markets[28].

4.28. However, as noted in paragraph 4.10 above, some argue that the heritage significance of heritage assets cannot be represented by monetary values, because monetary values do not convey their value. From that perspective monetary values either do not provide relevant information or the information provided is not representationally faithful.

Understandability of Monetary Values on Heritage Assets

4.29. Understandability is the quality of information that enables users to comprehend its meaning[29]. Monetary values for heritage assets appear more likely in many cases to provide understandable information to users, than would an absence of monetary values. Some may argue that monetary values for heritage assets could confuse users because there are often ethical, legal and/or statutory restrictions or prohibitions that restrict or prevent sale, transfer or destruction by the holder or owner of heritage assets. Disclosures on heritage asset restrictions and/or their special nature can be used

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[26] Chapter 2's description of heritage items describes the special characteristics of heritage items that distinguish them from other phenomena for the purposes of financial reporting.

[27] This paragraph applies the discussion of measurement bases and their achievement of the qualitative characteristics in Chapter 7 of the Conceptual Framework.

[28] Paragraph 7.28 of the Conceptual Framework describes the characteristics of open, active and orderly markets.

[29] Paragraph 3.17 & 3.18 of the Conceptual Framework.

to further support users' understanding of the information reported. Similar restrictions on other types of assets do not prevent their recognition.

Timeliness, Comparability and Verifiability

4.30. Timeliness means having information available for users before it loses its capacity to be useful for accountability and decision-making purposes[30]. Comparability is the quality of information that enables users to identify similarities in, and differences between, two sets of phenomena[31]. Verifiability is the quality of information that helps assure users that information in GPFRs faithfully represents the economic and other phenomena that it purports to represent[32].

4.31. The special characteristics of heritage items do not appear to raise issues additional to those identified in the Conceptual Framework for timeliness, comparability and verifiability of monetary values applying historical cost, replacement cost and market value. However, some may argue that monetary values attached to heritage assets could be difficult to verify.

Materiality

4.32. The Conceptual Framework explains that information is material if its omission or misstatement could influence the discharge of accountability by the entity, or the decisions that users make on the basis of the entity's GPFRs prepared for that reporting period. Materiality depends on both the nature and amount of the item judged in the particular circumstances of each entity. The Conceptual Framework does not specify a uniform quantitative threshold at which a particular type of information becomes material[33]. An entity will need to consider the materiality of their heritage asset holdings in the context of the legislative, institutional and operating environment within which it operates and prepares its GPFRs.

Cost-Benefit

4.33. The Conceptual Framework states that "Financial reporting imposes costs. The benefits of financial reporting should justify those costs"[34].

4.34. Benefits of recognizing heritage assets in the Statement of Financial Position include:

(a) Supports users' ability to:

(i) Hold the entity accountable for its heritage assets; and

(ii) Make decisions relevant to the entity as a whole and its heritage-related responsibilities;

(b) Provides relevant information to users of financial statements that helps them gain an overview of the financial position and performance of the entity, and which could also assist in driving improvements in an entity's performance management; and

(c) Improved asset accountability and management, including better identification of preservation priorities.

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30 Paragraph 3.19 of the Conceptual Framework.

31 Paragraph 3.21 of the Conceptual Framework.

32 Paragraph 3.26 of the Conceptual Framework.

33 Paragraph 3.32 to 3.34 of the Conceptual Framework.

34 Paragraph 3.35 of the Conceptual Framework.

4.35. It may be relatively straightforward to obtain monetary values, for example, when:

(a) Heritage assets have been purchased recently or components of heritage assets have been replaced recently, so that a transaction is identifiable and the cost at acquisition is known;

(b) Replacement costs are available to value heritage assets that are also operational assets; or

(c) An active market exists.

4.36. Jurisdictions and entities have argued that the cost-benefit constraint could be a factor against attaching a monetary value to heritage assets. In this view, carrying out heritage asset valuations may be a costly exercise, and not justified by the benefits of the information for users. Specifically, those that hold this view argue that:

(a) Disclosure of units and other information can provide appropriate accountability over heritage assets; and

(b) Benefits of assigning a monetary value to heritage assets are frequently limited, for example, where monetary values:

i. Are not used in decision-making related to heritage assets, including preservation, or

ii. May not represent relevant or meaningful information to users.

4.37. Others argue that the cost concerns commonly cited are either:

(a) Similar to costs applicable to other assets that are, nonetheless, measured for recognition, because the benefits of recognition are viewed as justifying the costs; or

(b) Arise in the context of first time adoption of accrual basis financial reporting, when the cost of recognizing assets generally, not only heritage assets, can be viewed as very high.

4.38. Some jurisdictions respond to the cost-benefit constraint by assigning a one currency unit value to heritage items. Supporters of this approach point out that, in the case of very ancient assets measured on a historical cost basis, this approach is the only way to include them in the accounts without overstating the monetary value. Others consider that it provides useful information to users of financial statements and facilitates:

(a) Asset management; and

(b) Recognition of subsequent capital expenditure.

4.39. However, during development of the Conceptual Framework the majority of the IPSASB concluded that this approach, which assigns a symbolic value to the asset, does not meet the measurement objective, because it does not provide information for the assessment of cost of services, operational capacity or financial capacity[35].

Recognition and Initial Measurement of Heritage Assets

4.40. Based on the discussion above, the IPSASB has concluded that in many cases it is possible to assign monetary values to those heritage items that meet the definition of an asset, and that there are benefits to both users and public sector entities by so doing. The measurement bases available to entities are likely to be restricted to historical cost, market value and replacement cost (where replacement cost includes restoration cost), each of which provides information relevant to an

[35] Paragraphs BC7.40-BC7.41.

assessment of one or more of the measurement objectives (cost of services, operational capacity and financial capacity). The IPSASB has therefore reached the following Preliminary Views, and requests constituents' comments on these and the related Specific Matters for Comment.

Preliminary View—Chapter 4.1

Heritage assets should be recognized in the statement of financial position if they meet the recognition criteria in the Conceptual Framework.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons.

Specific Matters for Comment—Chapter 4.2

Are there heritage-related situations (or factors) in which heritage assets should not initially be recognized and/or measured because:

(a) It is not possible to assign a relevant and verifiable monetary value; or

(b) The cost-benefit constraint applies and the costs of doing so would not justify the benefits?

If yes, please describe those heritage-related situations (or factors) and why heritage assets should not be recognized in these situations.

Preliminary View—Chapter 4.2

In many cases it will be possible to assign a monetary value to heritage assets. Appropriate measurement bases are historical cost, market value and replacement cost.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons.

Specific Matters for Comment—Chapter 4.3

What additional guidance should the IPSASB provide through its Public Sector Measurement Project to enable these measurement bases to be applied to heritage assets?

Chapter 5, Subsequent Measurement of Heritage Assets

Introduction

5.1. This chapter discusses the subsequent measurement of heritage assets. It builds on the IPSASB's preliminary views, reached in Chapter 4, that:

(a) Heritage assets should be recognized in the statement of financial position if they meet the recognition criteria; and

(b) Historical cost, market value and replacement cost (where replacement cost includes estimated reproduction cost) are appropriate measurement bases for heritage assets, dependent on circumstances.

5.2. The discussion draws on the Conceptual Framework and existing IPSAS requirements for the subsequent measurement of non-heritage assets, on the basis that these illustrate approaches that could, potentially, be applied to heritage assets.

Subsequent Measurement in the Conceptual Framework and IPSASs

5.3. During development of the Conceptual Framework, the IPSASB concluded that, in principle, the same considerations apply to initial and subsequent measurement[36]. Therefore, subsequent measurement:

(a) Should achieve the qualitative characteristics, taking into account the constraints; and

(b) Has the objective to select those measurement bases that most fairly reflect the cost of services, operational capacity and financial capacity of the entity in a manner that is useful in holding the entity to account and for decision-making purposes.

5.4. IPSAS requirements[37] for subsequent measurement address entities' reporting of information on:

(a) Subsequent expenditures related to assets, and the extent to which such expenditures should be capitalized or expensed;

(b) Consumption of tangible and intangible assets through depreciation and amortization, while allowing that some assets (for example, land) are not consumed;

(c) Impairment of cash-generating and non-cash-generating assets; and

(d) Revaluations of assets, where a revaluation model is applied.

5.5. Each of these topics is considered in the following paragraphs in relation to heritage assets.

Subsequent Measurement of Heritage Assets

5.6. Once a measurement basis has been applied for initial recognition of a heritage asset, subsequent measurement in the form of (a) accounting for subsequent expenditures, (b) depreciation/amortization and (c) impairment, is facilitated through the existence of an initial measurement. For example, the initial monetary value of an asset is a starting point for adjustments for any subsequent expenditure. However, a change in measurement basis (for example, moving to

36 Paragraph BC7.12 of the Conceptual Framework.

37 IPSAS 17, *Property, Plant and Equipment*, IPSAS 21, *Impairment of Non-Cash-Generating Assets*, IPSAS 26, *Impairment of Cash-Generating Assets,* and IPSAS 31, *Intangible Assets*.

a revaluation model) may present the same issues as those raised at initial recognition (see Chapter 4).

Subsequent Expenditure

5.7. Entities could expend large amounts directly on preserving heritage assets. For example, parts of heritage buildings deteriorate; those parts need to be replaced, using similar materials, to maintain their historic character. The key issue will be whether such expenditure should be expensed or capitalized. Appropriate classification is important to provide users with relevant and representationally faithful information on expenses and assets for assessments of cost of services, operational capacity and financial capacity.

5.8. IPSASs apply a recognition principle, whereby subsequent expenditures are recognized, increasing the carrying amount of the relevant asset, if it is probable that they confer future economic benefits or service potential for the entity and can be measured reliably. For example, IPSAS 17 states an entity will recognize in the carrying amount of an item of property, plant, and equipment the cost of replacing part of such an item when that cost is incurred, if this recognition principle applies. The carrying amount of the replaced part is then derecognized[38].

5.9. The special characteristics of heritage items[39] do not appear to have any particular implications for classifying subsequent expenditure as either an expense or asset.

Depreciation and Amortization

5.10. Many heritage assets deteriorate over time, although some, for example land and jewelry, do not. Heritage assets used in an entity's operations are likely to be consumed in line with those operations. Heritage assets held for their heritage significance are not expected to become functionally obsolete, because their heritage significance increases with age. Their useful lives can be difficult to determine, because the intention to preserve heritage assets for future generations suggests that they could be held in perpetuity or at least that their useful lives are significantly longer than those for non-heritage assets. Therefore, depreciation could be applicable to some (but not all) heritage assets and their components, to provide information relevant to assessments of cost of services and operational capacity.

Impairment

5.11. Heritage assets may be impaired, even though they are still intended to be preserved for future generations. Subsequent measurement that reflects impairment provides relevant information for assessments of costs of service and operational capacity.

Revaluation

5.12. This CP does not consider whether revaluation should be applied to heritage assets, but focuses on whether the special characteristics of heritage assets represent barriers to revaluation. When applying a revaluation model, entities will need to consider the pervasive constraints on information

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[38] Paragraphs 14 and 23-25 of IPSAS 17.

[39] Chapter 2's description of heritage items describes the special characteristics of heritage items that distinguish them from other phenomena for the purposes of financial reporting.

included in GPFRs[40], because these will affect the frequency with which heritage assets should be revalued. For example, from a cost-benefit perspective, the benefits of providing potentially more relevant information on heritage assets that have appreciated in value should be balanced against the costs of revaluation, which could be high for heritage assets.

5.13. After initial measurement at historical cost use of a revaluation model subsequently would require that market values and/or information for replacement cost will need to be available. As noted in paragraph 5.6, use of the new measurement basis will raise the same issues as those discussed in Chapter 4. Where the market value or replacement cost basis has been used for initial measurement, the same basis is likely to be available for subsequent revaluation.

5.14. Based on the discussion above, the IPSASB has concluded that the subsequent measurement of heritage assets can be approached in broadly the same way as for other, non-heritage assets. Subsequent measurement requirements for heritage assets will need to address changes in heritage asset values that arise from subsequent expenditure, consumption, impairment and revaluation, including the frequency of determining market value and their continued availability. Approaches in existing IPSASs are relevant to development of those requirements. The IPSASB has therefore reached the following Preliminary View:

Preliminary View—Chapter 5

Subsequent measurement of heritage assets:

(a) Will need to address changes in heritage asset values that arise from subsequent expenditure, depreciation or amortization, impairment and revaluation.

(b) Can be approached in broadly the same way as subsequent measurement for other, non-heritage assets.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons.

Specific Matters for Comment—Chapter 5

Are there any types of heritage assets or heritage-related factors that raise special issues for the subsequent measurement of heritage assets?

If so, please identify those types and/or factors, and describe the special issues raised and indicate what guidance IPSASB should provide to address them.

[40] Paragraph 3.3 of the Conceptual Framework.

Chapter 6, Heritage-Related Obligations

Introduction

6.1. The description of heritage items proposed in this CP indicates that they are items intended to be held indefinitely and preserved for the benefit of present and future generations[41]. This chapter discusses whether the intention to preserve heritage items could give rise to liabilities.

Conceptual Framework, Liabilities and Present Obligations

6.2. The Conceptual Framework defines a liability as "a present obligation of the entity for an outflow of resources that results from a past event"[42]. A liability is recognized when an item satisfies the definition of a liability and can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in GPFRs[43].

6.3. In considering whether an entity's heritage preservation intentions might give rise to present obligations, the IPSASB had in mind the following types of events or transactions:

(a) The receipt of funding for heritage preservation activities;

(b) The receipt of services to preserve heritage items;

(c) Legislation that requires entities to preserve heritage items (including penalties for failure to preserve heritage items);

(d) Heritage items for which maintenance or preservation generally is needed because:

(i) They have deteriorated so that there is a demonstrable need to restore them;

(ii) Planned maintenance has been deferred; and/or

(iii) A need for maintenance is likely (foreseeable) in the future.

Heritage-Related Present Obligations

6.4. An entity that holds heritage items is often viewed as having a moral duty to preserve them. However, this moral duty appears to be no different from that of, for example, maintaining infrastructure assets such as road networks or the electricity supply. A moral duty does not give rise to a present obligation and therefore a liability. A present obligation is either legally binding or non-legally binding, which an entity has little or no realistic alternative to avoid[44]. The Conceptual Framework states that an obligation must be to an external party in order to give rise to a liability[45]. An entity cannot be obligated to itself, even where it has publicly communicated an intention to behave in a particular way. Existing IPSASB pronouncements address obligations that could arise from the events in paragraph 6.3. It is unlikely that the types of events and transactions in bullet points 6.3(c) and (d) would, on their own, create a legally binding obligation.

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[41] Chapter 2 includes the following description for heritage items: "Heritage items are items that are intended to be held indefinitely and preserved for the benefit of present and future generations because of their rarity and significance in relation, but not limited, to their archeological, architectural, agricultural, artistic, cultural, environmental, historical, natural, scientific or technological features."

[42] Paragraph 5.14 of the Conceptual Framework.

[43] Paragraph 6.2 of the Conceptual Framework.

[44] Paragraph 5.15 of the Conceptual Framework.

[45] Paragraph 5.18 of the Conceptual Framework.

Heritage-Related Outflows of Resources

6.5. A liability must involve an outflow of resources from the entity for it to be settled. An obligation that can be settled without an outflow of resources from the entity is not a liability[46].

6.6. Holding heritage items is likely to involve outflows of resources over time. Given the ongoing expense of preserving heritage items for present and future generations, some have argued that a liability should be recognized to reflect these resource outflows, including deferred outflows, where deferral could be by comparison to an agreed cycle of maintenance or with respect to some other criteria. However, the ability to defer these outflows suggests that an entity does not have a present obligation for the outflow of resources.

Heritage-Related Past Events

6.7. Possible past events relating to heritage preservation obligations might include when an entity:

(a) Acquires heritage items;

(b) Makes a public commitment to preserve heritage items for future generations;

(c) Includes a heritage preservation objective (or other statement) in its publicly available planning documents;

(d) Creates a plan for resource outflows necessary for preserving heritage items;

(e) Receives an approved budget or an appropriation or other funding for preserving heritage items;

(f) Receives services for which payment is due.

6.8. Drawing on discussion in the Conceptual Framework, an assessment of each of these past events suggests that the entity appears likely to have alternatives enabling it to avoid an outflow of resources, with the exceptions of[47]:

(a) *Receipt of funding*, if funding results in a performance obligation; and

(b) *Receipt of services*, if the entity has obligations (to pay for services received) arising from either a legal contract or other binding arrangement.

6.9. However, whether an entity has received funding or services related to heritage preservation, the arrangements are unlikely to differ from receipt of other funding with performance obligations or from any normal contract for services and there would appear to be no reason why the transaction should be accounted for in a different way.

Heritage-Related Liabilities

6.10. The IPSASB acknowledges that there are many who believe that entities holding heritage items for the purposes stated in the description of heritage items developed in Chapter 2 have a moral duty to expend resources to preserve those items and to account for that duty as an obligation. The IPSASB

[46] Paragraph 5.16 of the Conceptual Framework.

[47] The IPSASB's Revenue and Non-Exchange Expenses project considers performance obligations. If funds contain conditions/performance obligations there is a present obligation to the resource provider until they are fulfilled. In such circumstances there is an obligation to an external party. Therefore it meets the requirement discussed in paragraph 6.4.

considers, however, that the special characteristics of heritage items[48] do not of themselves give rise to present obligations that would result in the recognition of a liability. The IPSASB has therefore reached the following Preliminary View.

Preliminary View—Chapter 6

The special characteristics of heritage items, including an intention to preserve them for present and future generations, do not, of themselves, result in a present obligation such that an entity has little or no realistic alternative to avoid an outflow of resources. The entity should not therefore recognize a liability.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons.

[48] Chapter 2's description of heritage items describes the special characteristics of heritage items that distinguish them from other phenomena for the purposes of financial reporting.

Chapter 7, Presentation of Information on Heritage Items

Introduction

7.1. This chapter draws on the Conceptual Framework to discuss the presentation of information for heritage in GPFRs. It discusses whether the special characteristics of heritage items—the intention to hold them indefinitely and preserve them for the benefit of present and future generations, because of their rarity and/or significance—have implications for the presentation of information in GPFRs.

7.2. The Conceptual Framework states that the objectives of financial reporting are to provide information about the entity that is useful to users of GPFRs for accountability and decision-making purposes[49]. Presentation, defined as "the selection, location and organization of information that is reported in the GPFRs[50]", is one of the means by which the objectives of financial reporting are met.

Presentation Objectives for Information on Heritage

7.3. In Chapter 3 of this CP the IPSASB reached the Preliminary View that the special characteristics of heritage items[51], as described in Chapter 2, do not prevent them from being considered as assets for the purposes of financial reporting. In Chapters 4 and 6 the IPSASB reached Preliminary Views that:

(a) Heritage assets should be recognized in the statement of financial position if they meet the recognition criteria in the Conceptual Framework;

(b) In many cases it will be possible to assign a monetary value to heritage assets and historical cost, market value and replacement cost are appropriate measurement bases for heritage assets, dependent on circumstances; and

(c) The special characteristics of heritage items, including an intention to preserve them for present and future generations, do not, of themselves, result in a present obligation such that an entity has little or no realistic alternative to avoid an outflow of resources and should therefore recognize a liability.

7.4 The IPSASB concludes that the corollary of those Preliminary Views is that the special characteristics of heritage items (whether or not recognised as assets, with any associated liabilities), do not warrant presentation objectives specific to heritage. Rather, just as for any other revenues, expenses, assets and liabilities, an entity should present information in a way that meets the objectives of financial reporting, applying existing IPSASB pronouncements, including Recommended Practice Guidelines (RPG) where appropriate[52].

7.5 Others take the view that the special characteristics of heritage items do require enhanced disclosures, to meet users' need for information relevant to entities' preservation of heritage items for present and future generations.

7.6 In line with existing IPSASB pronouncements, an entity considers materiality when deciding whether a line item for heritage assets should be displayed on the face of the financial statements and what

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49 Paragraph 2.1 of the Conceptual Framework.

50 Paragraph 8.4 of the Conceptual Framework.

51 Chapter 2's heritage items description reflects their special characteristics of heritage items and distinguishes them from other phenomena for the purposes of financial reporting.

52 The IPSASB has issued three RPGs; RPG 1, *Reporting on the Long-Term Sustainability of an Entity's Finances,* RPG 2, *Financial Statement Discussion and Analysis*, and RPG 3, *Reporting Service Performance Information*.

information should be disclosed in the notes. If the entity applies one or more RPGs, it may also need to provide information in other GPFRs.

7.7 Information on recognized heritage assets might include:

(a) The main types of heritage assets;

(b) How heritage assets are measured, including impairment or other changes in measurement; and

(c) Resource outflows and inflows as a result of holding, acquiring and disposing of heritage assets (for example through transfer or sale).

7.8 An entity could present information in its financial statements discussion and analysis or another GPFR to assist users to understand the:

(a) Effect of the entity's holding of heritage items on its operational capacity, cost of services and financial capacity;

(b) Extent of an entity's heritage holdings, encompassing any heritage items recognized as assets as well as unrecognized heritage items;

(c) Extent of maintenance expenses; and

(d) Nature of the entity's custodial responsibilities with respect to heritage and legislation that establishes such responsibilities.

7.9 Different entities have different portfolios of heritage items. Each entity will need to determine what information needs to be presented in light of the heritage items they hold and IPSASB pronouncements (IPSASs and, where applicable, RPGs).

Preliminary View—Chapter 7

Information about heritage should be presented in line with existing IPSASB pronouncements.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and describe what further guidance should be provided to address these.

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