CHARTERED ACCOUNTANTS
AUSTRALIA + NEW ZEALAND

Friday, 29 August 2025

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Chief Executive
External Reporting Board
Level 6, 154 Featherston Street
Wellington 6011

By website: https://www.xrb.govt.nz/consultations/accounting-standards-open-for-consultation/service-performance-reporting/

Dear Wendy

Consultation Paper: Reporting and assurance of service performance information – Tier 1 and 2 not-for-profit entities

Key Points

- **CA ANZ supports service performance reporting and assurance as a tool for transparency, accountability, and stakeholder engagement in the not-for-profit sector.**
- **We concur with the root causes of the key challenges being experienced by stakeholders, and we outline some specific examples.**
- **We support targeted amendments to PBE FRS 48 to clarify ambiguous areas and improve implementation provided they do not increase compliance costs.**
- **We recommend providing exemplars of service performance reporting, including the audit evidence required to substantiate the data, and illustrative performance measures by sub-sector.**
- **We support the provision of additional guidance for assurance practitioners, especially for issues such as materiality, internal controls, and sampling of service performance information.**
- **We also urge the XRB to complete a strategic review of user needs and cost-benefit considerations, particularly for non-donee organisations.**

Chartered Accountants Australia and New Zealand (CA ANZ) appreciates the opportunity to provide comments to the External Reporting Board (XRB) on the above consultation paper (the CP). We make this submission on behalf of our members and in the public interest. This submission is informed by extensive engagement with preparers including not-for-profit (NFP) management and governors, external advisors, assurance practitioners, small and large funders, regulators, and judges of the CA ANZ New Zealand For Purpose Reporting Awards.

We support the concept of service performance reporting as it provides NFPs with the opportunity to tell their whole story, while at the same time discharging their obligations for accountability and transparency to their stakeholders. Service performance information has many benefits for NFPs, including giving potential funding providers a better understanding of the funding proposition, and providing potential volunteers with an understanding of how they can best help. The assurance of service performance information increases its credibility and reliability, and in turn the trust and confidence users can have in the information. However, we acknowledge that stakeholders are experiencing difficulties with the reporting and assurance of service performance information.

We note that PBE FRS 48 *Service Performance Reporting* (PBE FRS 48) has been effective for just three reporting periods (periods beginning on or after 1 January 2022) so is still in its infancy. In addition, NZ AS 1 *The Audit of Service Performance Information* has recently been revised and has only been effective for one reporting period (periods beginning on or after 1 January 2024). In this regard, we support balancing the need to allow time for the reporting and assurance standards to be embedded into business-as-usual processes and responding appropriately to the challenges. While we generally support a principles-based approach to standard setting, it has transpired that taking this approach in PBE FRS 48, to allow flexibility in reporting, has made the standard difficult for a range of NFPs to implement. Therefore, more specificity in certain areas may be warranted.

We commend the XRB for holding workshops last year to explore the challenges that Tier 1 and 2 NFPs, assurance practitioners and users are experiencing with service performance information. We support in principle the potential short-term actions proposed in the CP that the XRB could take to help address these challenges. However, in the medium to long-term we recommend further strategic consideration of user needs, and whether the benefits justify the costs, especially for certain sub-sectors and/or types of NFPs. This consideration should include the opportunity costs that could be directed toward delivery of critical goods and services, which is a significant factor in the NFP sector.

Our responses to the specific questions raised in the CP are in Appendix A. Appendix B provides more information about CA ANZ.

Should you have any questions about the matters raised in this submission or wish to discuss them further, please contact Zowie Pateman FCA, Deputy Leader – Reporting and Assurance at Zowie.Pateman@charteredaccountantsanz.com

Sincerely

Peter Vial FCA

New Zealand Country Head

Amir Ghandar FCA

Reporting and Assurance Leader

Appendix A

Responses to specific questions

For reporting entities and assurance practitioners

1. Do you agree that the root causes described above are contributing to the key challenges in preparing and assuring service performance information? Do you have any other feedback on the challenges?

The root causes of the challenges are well articulated in the CP, and consistent with the understanding gained from our consultation work. They are not mutually exclusive, and their interdependencies make any standard-setting response potentially more complex.

Judging the CA ANZ New Zealand For Purpose Reporting Awards, which receives approximately 50 entries each year, has given us the following insights for each of the challenges:

- **Lack of clarity over reporting**: Judges have observed incorporation of long-term impact reporting, which can cause the NFP to lose sight of the objective of 'telling their performance story'. Although not used in PBE FRS 48, terminology such as "outputs", "outcomes" and "impacts" seems to be used interchangeably in the sector which is confusing and gets preparers and auditors into a level of detail that is not required. This may partially be a legacy from the superseded PBE IPSAS 1 Appendix C: Service Performance Reporting or the old Tier 3 Standard (PBE SFR-A (NFP)).

- **Differences between the public sector and not-for-profit sectors**: In the NFP sector judges have observed the omission of some basic key aspects of the requirements of PBE FRS 48 such as comparative information (paragraph 37), and the disclosure of the judgements and estimates that have the most significant effect on the selection, measurement, aggregation, and presentation of their service performance information (paragraph 44). We believe this may be a capability and/or capacity issue.

- **Maturity in service performance reporting**: Judges have observed a lack of an appropriate and meaningful mix of performance measures and/or descriptions. Quantitative measures are by far the most common ones being used by NFPs to communicate what they have done. In some cases this may be because quantitative measures come from traditional information sources and are easier to provide audit evidence for, due to systems, processes and controls for service performance information still maturing. In other cases there is a knowledge gap with some preparers unawarethat qualitative measures and descriptions were permitted by PBE FRS 48.

- **Verification challenges**: Judges have observed service performance information being located outside the financial statements in the annual report so that it is only subject to audit within the context of ISA (NZ) 720 *The Auditor's Responsibility Relating to Other Information*. This is a commonly used work around for service performance information, particularly qualitative measures and descriptions, that is important to the entity, but for which sufficient appropriate audit evidence is not available.

Research also indicates a compliance mindset that may hinder recognising the value of service performance information.[1] To address this issue a mindset shift is needed – a collective effort from all stakeholders is essential to promote the importance and usefulness of the reporting and assurance of service performance information, and develop a culture which recognises the benefits of, and values, the reporting and assurance of service performance information.

2. Do you agree that amending the requirements of PBE FRS 48 at this time would help to address current challenges? Do you anticipate additional costs will be incurred if the requirements are amended?

We agree that making targeted amendments to PBE FRS 48 would go some way to helping address some of the current challenges in the short-term. If the targeted amendments are just to clarify certain areas which currently cause ambiguity and misinterpretation, without changing the core principles of the standard, then we would not anticipate additional costs being incurred.

3. Do you agree with all the proposed targeted amendments in (a) – (d)? Are there any other areas that may need clarifying and why?

(a) **Clarifying the purpose and nature of service performance information**: It may be useful to explicitly state that long-term impact reporting, including outcomes, is not in scope of the standard.

(b) **Aligning with the conceptual framework**: The linkage between the qualitative characteristics and the need for service performance information to be "appropriate and meaningful" could be improved. In addition, the point on 'trade-offs' (the pervasive constraint of balance between the qualitative characteristics) in paragraphs 8 and 10 could be elevated, particularly to highlight that entities do not have to prepare service performance information which meets all the qualitative characteristics. It may also be useful to emphasise the need to consider the decision-usefulness of service performance information.

(c) **Basis of preparation requirements**: We would support the inclusion of an explicit basis of preparation disclosure requirement within PBE FRS 48, and illustrative examples of what this could look like would be well received.

(d) **Disclosure considerations**: We support clarifying the existing requirements on disclosing significant judgements as this is an area which in our experience is not currently done very well.

4. Do you consider that adding an appendix to PBE FRS 48 for the not-for-profit sector in (e) would be beneficial to address some challenges experienced by not-for-profit entities?

We agree that the addition of an authoritative appendix to PBE FRS 48 tailored for NFPs, providing application material to clarify the principles of the standard, could be beneficial to address some challenges. However, it must target key areas in a simple user-friendly way.

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[1] Xu, G., & Yang, C. (2023). Service performance assurance for small charities: Experiences from New Zealand. International Journal of Auditing, 27(4), 190–207. https://doi.org/10.1111/ijau.12307

5. Do you agree with the topics for the proposed not-for-profit appendix in (e)? If not, please explain the areas that could be clarified.

- **Steps for developing a performance framework**: This is one area where there are significant differences between public sector and not-for-profit PBEs. Performance frameworks for public sector PBEs are often prescribed in legislation/regulation. NFPs must develop these internally which is difficult with the resource constraints commonly experienced in the sector.

- **Linking reported activities within the confines of an annual reporting period**: A greater focus on the annual reporting period would reinforce that performance reporting is not about long-term impact or outcomes reporting, but what the entity has done during the reporting period in working towards its broader aims and objectives (together with supporting contextual information).

- **Selecting appropriate measures and considering contractual funding agreements**: In our view this should be "Selecting an appropriate and meaningful mix of measures and/or descriptions" and "considering contractual funding agreements" would be just one part of this.

For reporting entities

6. Do you agree that the XRB hosting workshops for significant sub-sector preparers to develop further supplementary material for service performance reporting would be beneficial? What other material or approaches to guidance would be beneficial?

We acknowledge and commend the XRB for producing a wealth of guidance to date. However, feedback from our consultations suggests that XRB hosted workshops for significant sub-sector preparers (e.g., health, education and social services) to develop further supplementary material for service performance reporting would be well received. Such workshops could help NFPs develop performance frameworks and documentation practices suited to their context. However, some sub-sectors were concerned about the time commitment involved.

In terms of other material, we heard that a collation of real-life exemplars of service performance reporting, and the records that were kept and provided to the auditor as audit evidence, would be particularly useful to preparers. We also heard that a library of performance measures by sub-sector would be useful and could help enhance comparability.

In addition, NFP governing bodies must have the knowledge and expertise to take responsibility for reporting service performance information. The Institute of Directors (IoD) may be best placed to partner with the XRB in this regard.

For assurance practitioners

7. Do you agree that guidance to address the identified challenges will be useful to assurance practitioners? What areas, other than sufficient appropriate evidence, would be beneficial?

We agree that guidance proposed in the CP, and expanded on below, to address the identified challenges would be useful to assurance practitioners. In this regard, we note that the IAASB's Non-Authoritative Guidance on Applying ISAE 3000 (Revised) to Sustainability and Other Extended External Reporting (EER) Assurance Engagements (April 2021) covers many of the challenges mentioned, as service performance reporting is a type of EER.

- **Approaches to gathering sufficient appropriate evidence for different types of information**: It is well documented that qualitative information is more challenging for assurance practitioners to verify, compared to quantitative information. We are aware that the XRB is currently working on a set of illustrative examples on obtaining audit evidence over service performance information – we believe this will be a useful addition to the suite of guidance materials.

- **Application of the concept of materiality to service performance information**: Again, it is well documented that the application of materiality to qualitative information is more challenging than for quantitative information. We note that NZ AS 1 only refers to *determining* materiality for service performance information (paragraph 28 and 30). Whereas ISSA 5000 *General Requirements for Sustainability Assurance Engagements* uses a bifurcated approach – whereby the assurance practitioner *determines* materiality for quantitative disclosures; and *considers* materiality for qualitative disclosures (paragraph 98) – given that it would be impractical to *determine* materiality for qualitative disclosures owing to the nature of those disclosures. We recommend using this same approach for assurance of service performance information.

  Any guidance on materiality would also need to explore an approach to grouping service performance information logically based on similarity in expression, user interest and user tolerance for misstatement, and aggregation risk.

- **Considerations when assessing internal controls over service performance information**: We believe this would be useful, as our feedback is that it is common for some assurance practitioners to default to a fully substantive audit approach for service performance information. In some cases this may be due to immature systems, processes and controls, but it is important to distinguish between unsophisticated controls (which maybe adequate for the complexity of the entity) and inadequate controls.

- **Practical approaches to sampling service performance information**: There is a perception that, if service performance information is reported, then it must be material, so it must be audited, resulting in a 100% audit coverage and hence no sampling being performed. This perception is informed by the qualitative characteristic of 'relevance' being strongly linked with judgements about the materiality of information (paragraph 9 of PBE FRS 48); and the statement; "Materiality has an important role in guiding the selection of service performance information to be included in a financial report" (paragraph 46A.1 of PBE IPSAS 1). Two clarifications would be useful here; that 'immaterial' service performance information may be reported (if that is indeed the intention); and that the entity's materiality assessment differs to the materiality assessment requirements that apply to assurance practitioners.

Research shows a 24% average increase in audit fees following the introduction of mandatory reporting of service performance information for Tier 1 and 2 charities.[2] In the extreme we heard of instances where the audit of the service performance information cost the same as the audit of the rest of the financial statements.

[2] Chen, X., & Scott, T. (2025). The cost of auditing service performance information. International Journal of Auditing, 0:1-21. https://doi.org/10.1111/ijau.12379

8. Do you agree that the targeted amendments to PBE FRS 48 and further service performance reporting guidance material as proposed in previous sections could also help address some of the assurance challenges?

We agree that making targeted amendments to PBE FRS 48, and further service performance reporting guidance material, would go some way to helping address the assurance challenges. There is a perceived mismatch between the requirements in the accounting standard (PBE FRS 48) when compared to the auditing standard (NZ AS 1). Assurance practitioners feel much more is required from them, than is required by the entity preparing the service performance information, resulting in an imbalance of responsibility.

Furthermore, we heard that NFPs often rely heavily on their auditor for guidance. So, assurance practitioners are currently performing a key role in educating management and those charged with governance of NFPs, which can pose threats to independence that are difficult to resolve.

For users

9. How do you use service performance information to make decisions? Do you face any challenges in understanding service performance information and what may be the cause of these challenges?

During our outreach we spoke to a range of users, including funders of varying sizes, and regulators. Smaller funders tend to operate on a high-trust model – they rely heavily on information they receive through relationships and their reach in the community, as opposed to service performance information or even financial statements more broadly.

In contrast, larger funders do use service performance information as an integral part of their funding assessment process to consider the need in the community for the service that the entity provides, and to observe trends overtime with respect to the demand for that service.

The biggest challenge experienced by users is the variability in the service performance information that is reported due to the wide range of performance measures that can be used. Although this gives funders a good sense of the entity's strategic thinking and understanding of its own performance, we heard that this makes comparability much more difficult for service performance information compared to financial information, and difficulty linking back to purpose.

The other main challenge is the inclusion of service performance measures that are not 'appropriate and meaningful', for example: number of grant applications, number of Facebook likes, number of social media posts, etc.

While larger funders find service performance information and financial information of equal use, they do not put the same lens on service performance information as they do financial information, in recognition that measuring service performance can be difficult. For this reason, we understand they do also tend to look at service performance information outside the audited financial statements and may not tend to view this service performance information any differently.

Through our outreach it became apparent that there is an important distinction between donee and non-donee organisations. For non-donee organisations, such as those in the education sector that are solely government funded by agencies such as the Ministry of Education (MoE) and/or the Tertiary Education Commission (TEC), it is difficult to identify users of the financial statements, and hence the need for service performance information. These government agencies have their own bespoke reporting requirements. So, the question over the cost versus the benefit of reporting and assurance of service performance information is more pronounced for non-donee organisations.

We have also heard that in certain circumstances service performance information requirements can be a material disincentive to setting up a funding entity in New Zealand, in some cases causing donors to set up offshore, for example, foundations established via bequest. Determining the existence of users for service performance information is much less straight forward for these types of NFP. Clarifying service performance reporting expectations for these types of NFPs could help address this issue. We understand Charities Services has lower expectations for NFPs that do not take donations from the public.

Accordingly, we recommend that the XRB broaden its focus beyond the short term and undertake a strategic review over the medium to long term to assess the existence of user needs and determine whether the benefits justify the costs – particularly for these specific types of NFPs.

10. Do you consider the proposals around the inclusion of a basis of preparation and further disclosures (as noted in Part 4) would enhance your understanding and use of service performance information? If not, what other actions should the XRB consider further?

Users we spoke to felt that some standardisation of service performance measures by sub-sector would have the largest impact on their understanding and use of service performance information. They also acknowledged the feasibility limitations associated with this.

When service performance reporting was introduced, we wanted to see the increase in scope offset by measures to streamline NFP reporting to funding providers to remove any potential duplication and to ensure that the compliance cost of these requirements did not exceed the benefits. We are not convinced this has happened yet.

Therefore, other actions the XRB could consider further would be working with funding providers, especially those that are government agencies, to ensure their grant application and acquittal requirements leverage the service performance information in the financial statements as far as possible to avoid duplicative or excessive reporting requirements.

Appendix B

About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand (CA ANZ) represents more than 140,000 financial professionals, supporting them to build value and make a difference to the businesses, organisations and communities in which they work and live.

Around the world, Chartered Accountants are known for their integrity, financial skills, adaptability and the rigour of their professional education and training.

CA ANZ promotes the Chartered Accountant (CA) designation and high ethical standards, delivers world-class services and life-long education to members and advocates for the public good. We protect the reputation of the designation by ensuring members continue to comply with a code of ethics, backed by a robust discipline process. We also monitor Chartered Accountants who offer services directly to the public.

Our flagship CA Program, the pathway to becoming a Chartered Accountant, combines rigorous education with practical experience. Ongoing professional development helps members shape business decisions and remain relevant in a changing world.

We actively engage with governments, regulators and standard-setters on behalf of members and the profession to advocate in the public interest. Our thought leadership promotes prosperity in Australia and New Zealand.

Our support of the profession extends to affiliations with international accounting organisations.

We are a member of the International Federation of Accountants and are connected globally through Chartered Accountants Worldwide and the Global Accounting Alliance. Chartered Accountants Worldwide brings together members of 13 chartered accounting institutes to create a community of more than 1.8 million Chartered Accountants and students in more than 190 countries. CA ANZ is a founding member of the Global Accounting Alliance which is made up of 10 leading accounting bodies that together promote quality services, share information and collaborate on important international issues.

We also have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents more than 870,000 current and next generation accounting professionals across 179 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications.