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Via online submission: <https://www.xrb.govt.nz/consultations/accounting-standards-open-for-consultation/service-performance-reporting/>

Dear Mr. Kensington

Consultation Paper: Reporting and Assurance of Service Performance Information- Tier 1 and 2 not-for-profit entities

As one of the largest professional accounting bodies in the world, CPA Australia represents the diverse interests of more than 175,000 members working in over 100 jurisdictions and regions around the world, working in diverse roles across public practice, commerce, industry, government and academia throughout Australia, New Zealand and internationally. We welcome the opportunity to provide feedback on the above Consultation Paper (CP). We make this submission on behalf of our members and in the public interest.

We agree with the root causes identified that are contributing to challenges faced by preparation of and assurance over Service Performance Information (SPI). We also agree with the proposed targeted amendments to Public Benefit Entity Reporting Standard 48 Service Performance Reporting (PBE FRS 48) We make the following additional specific recommendations for consideration:

- Clarify who are primary users of SPI and defining the term “appropriate and meaningful”
- Provide supplementary guidance that is targeted at sub sectors within the not-for-profit sector
- Provide supplementary guidance to assurance practitioners to address current complexities that are identified in the CP.

Attachment A sets out CPA Australia’s detailed response to the consultation questions. Should you have any questions or wish to discuss further, please contact either Tiffany Tan, Audit and Assurance Lead at tiffany.tan@cpaaustralia.com.au or Ram Subramanian, Financial Reporting Lead at ram.subramanian@cpaaustralia.com.au.

Yours sincerely

Elinor Kasapidis
Chief of Policy, Standards and External Affairs
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Attachment A: CPA Australia's Response

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? (for reporting entities and assurance practitioners)

We agree that the root causes outlined in the CP contribute significantly to the key challenges in preparing and assuring service performance information (SPI).

We also note that the challenges associated with the lack of maturity in service performance is not only affecting preparers in the not-for-profit (NFP) sector but also assurance practitioners.

Lack of clarity over reporting

The flexibility enshrined in the SPI reporting frameworks complicates assurance engagements. Practitioners often face uncertainty around the scope and applicable criteria, which affects the consistency and reliability of assurance conclusions.

Maturity in service performance reporting and verification challenges

In addition, immature SPI reporting systems, processes and controls led to inconsistent reporting practices. As SPI reporting evolves and matures, variations in approach are to be expected. For example, organisations may choose to disclose information that is easier to report such as quantitative data, while providing less detail on more complex qualitative aspects. In some cases, selective disclosure of favourable outcomes, lack of substantiated results or supporting evidence. Such variations can increase complexity and difficulties in obtaining sufficient and appropriate audit evidence.

Additionally, feedback we have received indicates there is a skills gap as many auditors are more experienced with financial statement audits than with the assurance of SPI. Assurance professionals have traditionally received minimal training in SPI or non-financial assurance as part of their formal qualifications. This highlights the need for enhanced professional development and targeted internal training to build capability and competence in assuring SPI.

Collectively, these factors undermine the overall quality and reliability of SPI and present practical barriers to delivering robust assurance in this evolving reporting landscape.

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? (for reporting entities and assurance practitioners)

We agree that amending the requirements of PBE FRS 48 at this time would help address current challenges in preparing and assuring SPI. Clarifying and refining the standard would provide both preparers and assurance practitioners with greater confidence and improve the consistency and quality of reporting.

Research indicates a 25% increase in audit fees following the introduction of SPI reporting, significantly higher than the 11% rise observed with IFRS adoption¹. This increase has been attributed to factors such as underdeveloped information environments, the need for tailored audit procedures, and the complexity of auditing qualitative information. These factors are consistent with the root causes identified in the CP. Additionally, the same research also identified that the absence of significant changes in filing lags suggests that the additional costs were anticipated and managed effectively.

Whilst we believe there is benefit in making the proposed amendments and providing additional guidance, it is unclear to us at present whether this will lead to additional costs for both reporting and assurance.

¹ Chen, X. and Scott, T. (2025). The Cost of Auditing Service Performance Information. International Journal of Auditing, 29(3), pp.454–474. doi: <https://doi.org/10.1111/ijau.12379>.

As such, we believe that the long-term benefits of improved clarity and reduced ambiguity in PBE FRS 48 will outweigh any potential initial costs and contribute to a more robust and sustainable reporting framework.

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

We broadly support the proposed targeted amendments to PBE FRS 48 as set out in (a)–(d), as they represent positive steps toward addressing many of the practical and conceptual challenges currently faced by preparers and assurance practitioners. We also believe there are additional areas requiring clarification or enhancement to support consistent, meaningful, and auditable SPI.

a) Clarifying the purpose and nature of service performance information

We agree that clarifying the purpose and nature of SPI is critical. We agree with emphasising the role of SPI in supporting accountability and clarifying that PBE FRS 48 does not require reporting on long term impacts, therefore ensuring entity accountability through SPI does not extend to accountability over long-term impacts. However, to make this amendment more effective, further clarification is needed on identifying the primary users of SPI.

Currently, PBE FRS 48 IN2 provides general guidance on the users of public benefit entity reports. However, this is not sufficiently tailored to SPI, particularly in the NFP context. We recommend that the XRB defines “primary users” of SPI in a principles-based manner, supported by attributes or criteria. This will help preparers identify relevant users in diverse contexts and improve alignment between preparers and assurance practitioners. For example, if auditors are expected to rely on the same user definition, they may need to challenge management’s user assessment, which must be clearly articulated and supported in the standard or accompanying guidance.

We also suggest the inclusion of clearer guidance around the term “appropriate and meaningful.” While its intent is to allow preparers to exercise judgement, its undefined nature has caused confusion and inconsistency in practice. A suggested principles-based definition is as follows:

“Performance measures are ‘appropriate and meaningful’ when they reflect the entity’s key objectives and activities, provide insight for the reporting period, into the delivery of services or achievements, to support decision-making by primary users. Defining this term would support transparency, comparability, and auditability while still allowing reporting flexibility.

b) Aligning with the conceptual framework

We support the alignment of PBE FRS 48 with the PBE Conceptual Framework as a positive step. However, this alignment alone is unlikely to resolve key challenges in practice, particularly around applying qualitative characteristics to SPI, which are often subjective and difficult to verify.

We believe that further practical guidance (see our response to Question 6 below) is needed on how to apply these qualitative characteristics to SPI, especially qualitative disclosures. Referencing the conceptual framework is insufficient unless supported by real-world examples, explanatory materials, or application guidance that fosters consistent interpretation and application across the sector.

c) Basis of preparation requirements

We support the proposed amendment to strengthen disclosure requirements related to the basis of preparation. We endorse explicitly requiring entities to disclose how user needs were identified, how performance measures were selected, and the measurement techniques or approaches applied.

These enhancements will improve transparency and allow users and assurance practitioners to better understand the rationale behind reported SPI. However, we also caution that such requirements may impose additional reporting burdens on smaller entities with limited resources. The standard should retain flexibility to accommodate reporting by smaller Tier 2 NFPs while ensuring a minimum baseline of disclosure quality.

d) Disclosure considerations

We support the proposed improvements to SPI disclosures around significant judgements. In addition, we suggest encouraging or requiring entities to explain why specific measures are considered “appropriate and meaningful” (subject to our comments in a) above) within the context of their mission and operations. Focusing on results that the entity is accountable for, rather than aspirational or long-term impact, will promote efficient reporting. We believe this will help users better assess the relevance of reported information and support more consistent assurance practices.

Other areas that may need clarification

- **Balancing Flexibility with Practical Implementation Challenges:** While reporting flexibility is essential, it must be balanced with the need for consistency, verifiability, and auditability. Smaller Tier 2 NFP entities may struggle to implement the more sophisticated requirements of PBE FRS 48, including the use of qualitative metrics and outcomes reporting. These entities often default to easily quantifiable measures (e.g. membership numbers) due to concerns about audit scrutiny and limited resources. Therefore, any amendments to the standard should be scalable and proportionate to the size and capacity of the reporting entity, ensuring that flexibility does not compromise reporting quality or assurance feasibility.
 - **Identifying Intended Users:** As noted above, further clarity is needed regarding the process for identifying the intended users of SPI for NFP sectors and how this should align between preparers and auditors. Questions such as whether auditors should challenge management’s identification of users remain unresolved and needs to be addressed.
 - **Assurance Ambiguity Undermines Efficient SPI Preparation:** The SPI assurance environment remains challenging due to limited guidance on evidence expectations. Preparers have raised concerns about preparing an SPI report without knowing what supporting documentation will be requested during assurance engagements, which creates uncertainty and inefficiency.
 - **Challenges in operation changes:** Significant operational changes and evolving service models can affect the timeliness, relevance, and consistency of SPI. For instance, outdated performance measures may no longer align with current operations, resulting in reduced transparency, decreased information usefulness, and heightened audit risk. While such transitions may not occur frequently, clearer guidance on how to address operational changes in SPI reporting would be beneficial.
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? (for reporting entities and assurance practitioners)**

e) Sector-neutral standard with an authoritative appendix

We support the proposal to include an authoritative appendix to PBE FRS 48. Given the diversity of service delivery models and reporting maturity across NFP entities, such an appendix could offer clearer practical guidance and improve consistency in how entities interpret and apply the standard.

To enhance its usefulness, we recommend that the appendix is supported by additional supplementary guidance including non-exhaustive, principles-based illustrative examples tailored to different types of NFPs (e.g. health, education, social services, local government) and different sizes of NFPs. These examples should demonstrate how entities operating in similar sectors may reasonably select different performance measures based on their unique service contexts and user needs. Importantly, the appendix should explicitly state its non-prescriptive nature and encourage preparers to apply professional judgement, to avoid the risk of it being used as a checklist.

We acknowledge that NFPs often treat appendices as templates, which can inadvertently reduce the thoughtful application of principles and limit the quality and relevance of reporting. Therefore, it is essential that the appendix promotes flexibility and does not stifle innovation or adaptability in performance reporting.

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. (for reporting entities and assurance practitioners)

Yes, we agree with the proposed topics. A dedicated appendix would provide valuable clarity for NFP entities and promote greater consistency across the sector. As noted in our response to Question 4, we recommend providing supplementary non-prescriptive, principles-based examples across a range of NFP types to reflect the sector's diversity. These examples should also address sector-specific challenges (e.g. data privacy in healthcare).

To avoid checklist-style reporting, the appendix should clearly state its illustrative and flexible nature, encouraging preparers to exercise professional judgement. While flexibility is essential for NFPs, it must be carefully balanced with the need for auditability and comparability.

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? (for reporting entities)

Yes, we support the idea of XRB hosting workshops with significant sub-sector preparers. This would be a valuable step in developing practical, sector-specific guidance that responds to the diverse needs of NFP entities and enhances the application of PBE FRS 48.

We suggest the guidance is based on real-life case studies and examples of high-quality reporting, particularly from smaller Tier 2 NFPs with limited resources, to help bridge the gap between principle-based guidance and practical application. Supplementary material should include sub-sector-specific examples across a wider range of NFPs, including under-represented areas, and offer insights into the importance of SPI for accountability, fundraising, and cost transparency.

Feedback from our members stated smaller Tier 2 NFPs particularly benefit from clear guidance, hand-holding support, and practical tools. Case studies and targeted examples can help bridge the gap between principle-based standards and practical implementation, especially when reporting outputs rather than outcomes.

Overall, workshops and supplementary materials that are flexible, illustrative, and context-aware would greatly assist preparers and assurance practitioners in improving the quality and relevance of service performance reporting.

As noted in our response to Q 4 above, we have recommended that the XRB should develop supplementary guidance including non-exhaustive, principles-based illustrative examples tailored to different types and sizes of NFPs. In addition, the guidance could address sub sector-specific challenges such as data privacy and verifiability, particularly in sensitive sectors like healthcare. For example, sharing patient-level data with auditors could raise concerns under the relevant privacy laws. The examples could provide guidance on how to balance data protection (e.g. anonymisation techniques) with the need for verifiable information, supporting both preparers and assurance practitioners in meeting their obligations effectively.

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? (for assurance practitioners)

Yes, we agree that further guidance would be highly beneficial to assurance practitioners, especially given the challenges in applying traditional assurance concepts to SPI. We agree with XRB's approach in prioritising developing guidance on what is sufficient appropriate assurance evidence. That would be a sensible starting point, and we also strongly support further guidance on the topic of materiality, internal controls and sampling as proposed in the CP.

In addition to what has already been proposed in the CP, we have identified the need to balance:

Challenges in Defining Materiality and Misstatements

Assurance practitioners face persistent difficulties in applying the concepts of materiality and misstatement to SPI. Unlike financial information, service performance data often includes qualitative outcomes or subjective claims (e.g. “improved well-being” or “increased awareness”), where the link between reported results and the entity’s activities can be unclear. This weak attribution makes it difficult to assess whether the information is materially misstated or fairly presented.

Stakeholders’ expectations and costs.

Preparers and assurance providers face a major challenge in balancing stakeholder expectations for rich and insightful SPI, with the practical costs, resource limitations, and data availability associated with collecting and assuring this information. NFP entities may favour easily measurable outputs, while stakeholders and funders may seek deeper insights into impact and effectiveness.

The PBE Conceptual Framework’s constraints (i.e. cost-benefit, materiality, and balancing qualitative characteristics) are designed to guide against this tension, but in practice, their application is highly judgement-based and inconsistently interpreted.

We therefore recommend developing and providing guidance that:

- Clarifies how to operationalise these conceptual constraints in SPI assurance
- Supports auditors in evaluating preparers’ trade-offs (e.g. determining what is useful information vs. the costs of obtaining and reporting that information) in selecting and disclosing competing qualitative SPI
- Addresses the risks of management bias when preparing performance narratives, particularly where evidence is anecdotal, self-reported, or not independently verifiable.

Moreover, SPI often focuses on short-term activities rather than medium- to long-term impacts (as noted in PBE FRS 48 IN6(d)). This limits the ability of practitioners to evaluate progress toward broader strategic objectives and introduces ambiguity in audit assertions such as relevance, completeness, and cut-off. Therefore, guidance to clarify the scope of the engagement to ensure it only covers activities in the reporting period and understanding how to apply existing audit assertions in an SPI context will be useful.

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? (for assurance practitioners)

Yes, we believe the proposed targeted amendments to PBE FRS 48—particularly those related to the Basis of Preparation and Disclosure Considerations—along with the development of further guidance materials, will help address several assurance challenges.

Requiring NFP entities to explain their performance measurement basis, user identification process, and rationale for selecting performance indicators would enable assurance practitioners to better assess the relevance, appropriateness, and completeness of reported SPI without encroaching on management’s role. In this context, the proposed amendments could improve transparency and structure, thereby supporting auditors in forming a view on whether SPI is fairly presented.

In addition, the proposed and recommended guidance as outlined in our response to Question 7, will also directly support assurance practitioners in addressing the skills gap identified in our response to Question 1. As noted, assurance practitioners continue to face difficulties in applying traditional audit concepts such as materiality, completeness, and audit assertions to inherently subjective and qualitative SPI.

However, we note that subjectivity remains a core challenge. Performance measures often rely on anecdotal data, non-standardised surveys, or qualitative outcomes such as “improved well-being.” While additional

disclosures may enhance clarity, further guidance, especially on assuring non-verifiable or self-reported information, as discussed in Question 7, will still be essential to support the sufficiency and appropriateness of audit evidence.

Audit assertions such as accuracy, completeness, and cut-off are particularly difficult to assess in SPI audits. As noted by practitioners, many preparers view SPI reporting as a compliance task rather than a communication tool, which may compromise reporting quality. Addressing this mindset shift alongside better guidance can support a stronger assurance environment.

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? (for users)

We did not receive direct user feedback on this question. However, as noted in responses above, challenges such as lack of clarity, inconsistent reporting, and limited context may impact users' ability to interpret and rely on service performance information.

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? (for users)

We did not receive direct user feedback on this question. However, as outlined in previous responses, enhanced disclosures—particularly a clearly articulated basis of preparation—are expected to improve transparency, assist users in interpreting reported information, and support more informed decision-making.