

# New Zealand Accounting Standards Board

## MEETING PACK

for

### NZASB Meeting -125 Public

Thursday, 9 October 2025

9:15 am (NZDT)

Held at:

Generator Britomart

Level 10/11 Britomart Place, Auckland Central, Auckland 1010

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# AGENDA

## NZASB MEETING -125 PUBLIC

<b>Name:</b>	New Zealand Accounting Standards Board
<b>Date:</b>	Thursday, 9 October 2025
<b>Time:</b>	9:15 am to 4:15 pm (NZDT)
<b>Location:</b>	Generator Britomart, Level 10/11 Britomart Place, Auckland Central, Auckland 1010
<b>Guests/Notes:</b>	Carolyn Cordery (Committee Chair), Sheree Ryan (Deputy Chair), Keith Kendal, Jason Stinchcombe, Lara Truman, Richard Perry, Richard Smyth, Nicola Haslam, Alex Stainer, Carly Berry, Gali Slyuzberg, Kim Jama, Leana van Heerden, Michelle Lombaard, Nimash Bhikha, Tereza Bublikova, Wendy Venter

### 1. Non-Public Session

**1.1 Non-Public Session** 9:15 am (15 min)

### 2. Non-Public Session

**2.1 Non-Public Session** 9:30 am (50 min)

### 3. Non-Public Session

**3.1 Non-Public Session** 10:20 am (40 min)

### 4. Break

**4.1 Break** 11:00 am (15 min)

### 5. Service Performance Reporting

**5.1 Service Performance Reporting** 11:15 am (105 min)

#### For Discussion

Items 5.1d – 5.1n are submissions received.

#### Supporting Documents:

5.1.a	SPI Discussion Paper - Board Memo - Feedback Analysis.pdf	8
5.1.b	SPI Discussion Paper - Board Memo - Potential Actions.pdf	14
5.1.c	SPI Discussion Paper - What We Heard.pdf	26
5.1.d	1. Dr Pei-Chi Kelly Hsiao and Professor Tom Scott.pdf	28

Supporting Documents:

5.1.e	2. Platform Trust.pdf	33
5.1.f	3. YMCA New Zealand.pdf	38
5.1.g	4. Craig Fisher FCA.pdf	41
5.1.h	5. Cherrie Yang PhD.pdf	50
5.1.i	5A. Xu and Yang (2025) Industry Report_Service Performance Reporting and Assurance.pdf	51
5.1.j	5B. Xu and Yang (2023) Service performance assurance for small charities.pdf	75
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5.1.l	7. KPMG.pdf	103
5.1.m	8. CPA Australia.pdf	108
5.1.n	9. Charities Services.pdf	115
5.1.o	(SUPPLEMENTARY) NZAuASB Board memo – SPI assurance guidance.pdf	117

## 6. IASB Post Implementation Review – IFRS 16 Leases

### 6.1 IASB Post Implementation Review – IFRS 16 Leases 1:00 pm (45 min)

**For Decision**

Supporting Documents:

6.1.a	PIR of IFRS 16 - Board Memo.pdf	136
6.1.b	PIR of IFRS 16 – Draft comment letter.pdf	140
6.1.c	1. Derek Billcliff.msg	154
6.1.d	2. Nomos One - Survey Response.pdf	156
6.1.e	2A. Nomos One - Response to IFRS16 Post Implementation Review.pdf	159
6.1.f	3. CA ANZ Preliminary Staff Views - NZ IFRS 16 Leases (1).pdf	163
6.1.g	4. CPA Australia Preliminary Staff Views - NZ IFRS 16 Leases.pdf	170

## 7. Lunch

### 7.1 Lunch 1:45 pm (30 min)

## 8. 2025 Amendments to XRB A1 Application of the Accounting Standards Framework

### 8.1 2025 Amendments to XRB A1 Application of the Accounting Standards Framework 2:15 pm (15 min)

**For Decision**

Items 8.1d and 8.1e are submissions received.

Supporting Documents:

8.1.a	Board memo - 2025 Amendments to XRB A1 (October 2025).pdf	211
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Supporting Documents:

8.1.b	Draft Amending Standard - 2025 Amendments to XRB A1.pdf	221
8.1.c	Revised EG-A1-Guide-to-Application-of-the-Accounting-Standards-Framework (updated Oct 2025).pdf	234
8.1.d	1. CA ANZ.pdf	253
8.1.e	2. Platform Trust.pdf	256

## 9. IPSAS 50 and Stripping Costs Amendments

### 9.1 IPSAS 50 and Stripping Costs Amendments

2:30 pm (15 min)

**For Decision**

IPSAS 50 Exploration and Evaluation of Mineral Resources and Stripping Costs in the Production Phase of a Surface Mine

Supporting Documents:

9.1.a	Board memo – PBE IPSAS 50 and Stripping Costs.pdf	259
9.1.b	Draft standard PBE IPSAS 50 Exploration and Evaluation of Mineral Resources.pdf	267
9.1.c	Draft signing memo – PBE IPSAS 50 Exploration and Evaluation of Mineral Resources.pdf	280
9.1.d	Draft amending standard Stripping Costs in the Production Phase of a Surface Mine – Amendments to IPSAS 12 Inventories.pdf	284
9.1.e	Draft signing memo – Stripping Costs in the Production Phase of a Surface Mine – Amendments to IPSAS 12 Inventories.pdf	292

## 10. Tier 2 RDR Concession Policy

### 10.1 Tier 2 RDR Concession Policy

2:45 pm (30 min)

**For Decision**

Supporting Documents:

10.1.a	Board update memo - RDR policy (October).pdf	296
10.1.b	Draft RDR concession policy - October.pdf	310
10.1.c	Summary of RDR policy.pdf	330

## 11. PBE Policy Approach – Contracts Referencing Nature-Dependent Electricity

### 11.1 PBE Policy Approach – Contracts Referencing Nature-Dependent Electricity

3:15 pm (15 min)

**For Discussion**

Supporting Documents:

11.1.a	PBE Policy Approach - Contracts Referencing Nature-Dependent Electricity.pdf	332
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12. Non-Public Session

**12.1 Non-Public Session** 3:30 pm (15 min)

13. Non-Public Session

**13.1 Non-Public Session** 3:45 pm (15 min)

14. Non-Public Session

**14.1 Non-Public Session** 4:00 pm (5 min)

15. Close Meeting

**15.1 Close the meeting**

**Next meeting:** NZASB Board Meeting - 126 - 11 Dec 2025, 10:00 am



## Memorandum

**To:** NZASB Members

**Meeting date:** 9 October 2025

**Subject:** **Service Performance Reporting Discussion Paper  
– Feedback Analysis**

**Date:** 26 September 2025

**Prepared by:** Nimash Bhikha

**Through:** Michelle Lombaard

**Action Required**

**For Information Purposes Only**

### COVER SHEET

#### Project priority and complexity

<b>Domestic project purpose</b>	To address the reporting and assurance issues identified relating to service performance reporting and to ensure the service performance reporting requirements for Tier 1 and Tier 2 Public Benefit Entities (PBEs) in PBE FRS 48 <i>Service Performance Reporting</i> are appropriate to support high quality reporting of this information.
<b>Cost / benefit considerations</b>	This memo discusses the cost and benefits of amending PBE FRS 48 at this time, specifically considering the costs and benefits this would create to users, preparers and assurance practitioners.
<b>Project priority</b>	<b>High Priority</b> This project is a strategic priority for the XRB and impacts on the NZASB, NZAuASB and XRB Board. We have heard issues relating to the reporting and assurance of service performance information for several years, and actions to address these are needed to support the value, attitudes towards, and usefulness of, this information.

#### Overview of agenda item

<b>Board action required</b>	<b>High Complexity</b> <ul style="list-style-type: none"> <li>• <b>PROVIDE FEEDBACK</b> on the SPI discussion paper feedback analysis; and</li> <li>• <b>PROVIDE FEEDBACK</b> on the proposed next steps for this project.</li> </ul>
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## Purpose and introduction

1. The XRB released a consultation paper on the reporting and assurance of service performance information (SPI) in June 2025. This consultation paper was developed through a sub-committee of NZASB, NZAuASB and XRB Board members.
2. The purpose of this item is to provide a summary of the feedback received on the consultation paper.

## Recommendations

3. We recommend the Board **PROVIDE FEEDBACK** on the feedback analysis.

## Structure of this memo

4. This memo includes following sections:
  - (a) [Background](#)
  - (b) [Outreach summary](#)
  - (c) [Feedback analysis](#)

## Background

5. The XRB heard informal feedback relating to the reporting and assurance of SPI since PBE FRS 48 became mandatory from 2022. In 2024, we held a series of stakeholder workshops to seek feedback on the experience of preparers, users, and auditors of both public sector and not-for-profit (NFP) entities.
6. The XRB released a consultation paper in June 2025 with the aim to confirm our understanding of the root causes of these challenges, and to obtain feedback on the potential solutions – which included a combination of potential targeted amendments to PBE FRS 48 and developing further guidance. The potential targeted amendments included:
  - (a) Clarifying the purpose and nature of SPI
  - (b) Aligning with the PBE Conceptual Framework
  - (c) Basis of preparation requirements
  - (d) Additional disclosure considerations
  - (e) Retaining a sector-neutral standard with an authoritative NFP appendix.

## Outreach summary

7. We followed a comprehensive outreach and engagement strategy to obtain feedback from users, preparers and assurance practitioners around SPI reporting. Our outreach activities in relation to this consultation paper included the following:

Blue = Events to raise awareness of consultation	Green = Events to receive feedback on consultation
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June 2025	July 2025	August 2025
Creating an online portal for submission of any response letters		
Developing online surveys for respondents, including preparers and users		
Emails and phone-calls to SPI 2024 workshop participants		
Emails and phone-calls to 300+ NFP entities, users and funders from our stakeholder database		
Emails to 80+ NFP entities whose details were available as part of our SPI research		
Emails to entities involved in the He Taurira trial		
Emails to XRAP members who have expressed interest in SPI		
Targeted meetings and follow-up conversations with CA ANZ, CPA Australia, Inland Revenue and Charities Services to obtain feedback		
Emails and phone-calls to other user groups, including Philanthropy New Zealand, CATAS and funders		
Accounting alerts outlining the consultation paper and outreach events		
Linkedin posts outlining the consultation paper and outreach events		
	Overview of the consultation paper in accounting need-to-know webinar	
	Virtual drop-in sessions which included eight sessions open to the public	
	In-person roundtable workshops for health, education, social services and funders/users – <b>Note: These were later turned into virtual roundtables</b>	
	Virtual roundtable workshops including sessions open to the public around health, education, social services and funders/users	
		In-person workshop with assurance practitioners

8. We note the level of engagement from stakeholders (approximately 20 preparers/funders and 15 assurance practitioners) was relatively low compared to expectations, given the level of challenges we have heard around SPI reporting since PBE FRS 48 was issued.
9. The lack of feedback from **users** of SPI reporting also means the proposals around PBE FRS 48 within the consultation paper may not have the intended effect of improving this reporting for users, which was one of the key objectives with the proposed changes.
10. However, we note that from our outreach with users, they responded that they would provide feedback through other umbrella organisations (like CA ANZ and CPA Australia).

## Feedback analysis

11. The XRB's consultation period for New Zealand stakeholders ran from Monday 5 June 2025 through to Friday 29 August 2025.
12. Copies of the submissions received for this consultation paper are attached as agenda item 5.1d – 5.1n. Our public summary of the feedback, which highlights the main messages, is included in agenda item 5.1c.
13. Overall, we note that there were mixed perspectives on all the potential actions proposed in the consultation paper, and in some instances, there were differing views from preparers and assurance practitioners.
14. The key messages heard from respondents per consultation paper question (including formal submissions and informal feedback received) are included in the table below.

#	Consultation paper question	Summary of key messages
Q1.	<ul style="list-style-type: none"> <li>• Do you agree that the root causes described above are contributing to the key challenges in preparing and assuring service performance information?</li> <li>• Do you have any other feedback on the challenges?</li> </ul>	<ul style="list-style-type: none"> <li>• Overall support that the root causes identified are correct and the main drivers for the challenges in SPI reporting. It was noted that the root causes are not mutually exclusive, and their interdependencies make any standard-setting responses complex.</li> <li>• The key drivers were noted to be the lack of maturity of this reporting and the lack of value this reporting has for users and entities.</li> <li>• In addition to the root causes within our consultation paper, some feedback highlighted additional root causes, which also need to be resolved to see significant changes in SPI reporting: <ul style="list-style-type: none"> <li>- Governance and assurance practitioners' financial focussed mindsets towards this information.</li> <li>- The limited capabilities and capacity of assurance practitioners.</li> <li>- The difficulties in identify intended users and their needs.</li> </ul> </li> </ul>
Q2.	<ul style="list-style-type: none"> <li>• Do you agree that amending the requirements of PBE FRS 48 at this time would help to address current challenges?</li> <li>• Do you anticipate additional costs will be incurred if the requirements are amended?</li> </ul>	<ul style="list-style-type: none"> <li>• There were mixed views that the proposed amendments to the SPI reporting standard would be beneficial. Most assurance practitioners supported these changes while many preparers were concerned that these may result in significant additional costs.</li> <li>• There were also views that amendments to the reporting standard should only be made where they would directly solve the root cause of the challenges.</li> <li>• There were doubts that the proposed amendments would ultimately address the current challenges around SPI reporting.</li> </ul>
Q3.	<ul style="list-style-type: none"> <li>• Do you agree with all the proposed targeted amendments in (a) – (d)?</li> <li>• Are there any other areas that may need clarifying and why?</li> </ul>	<ul style="list-style-type: none"> <li>• There were mixed views around the areas of the proposed amendments to the reporting standard.</li> <li>• A key message heard throughout the consultation is that NFP entities are currently struggling with funding and adding further compliance costs should be avoided.</li> </ul>

#	Consultation paper question	Summary of key messages
		<ul style="list-style-type: none"> <li>It was emphasised that there were limited support for changes to the standard where it might result in increased costs for the NFP sector who already have limited time and resources.</li> </ul>
Q4.	<ul style="list-style-type: none"> <li>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?</li> </ul>	<ul style="list-style-type: none"> <li>There were mixed views that it would be beneficial to have a specific NFP authoritative appendix within the standard, most leaning towards not adding a specific appendix.</li> <li>Many comments noted that high quality SPI reporting principles would work effectively for NFP entities and public sector entities, and bigger challenges were caused by a lack of maturity of the reporting and the perceived low value of this information, as opposed to sector differences.</li> </ul>
Q5.	<ul style="list-style-type: none"> <li>Do you agree with the topics for the proposed not-for-profit appendix in (e)?</li> <li>If not, please explain the areas that could be clarified.</li> </ul>	<ul style="list-style-type: none"> <li>Most participants did not support adding an appendix, however for those who supported an appendix, there was support for the proposed topics to be included.</li> <li>It was noted that for the topics specified it may be difficult to develop requirements which would work for all NFP entities.</li> </ul>
Q6.	<ul style="list-style-type: none"> <li>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?</li> <li>What other material or approaches to guidance would be beneficial?</li> </ul>	<ul style="list-style-type: none"> <li>There was support, in theory, for the XRB hosting workshops with significant sub-sector preparers to develop practical, sector-specific guidance.</li> <li>However, it was noted that NFP entities have limited resources and there were concerns about the time commitment involved in attending workshops.</li> <li>It was preferred that examples and guidance be produced, rather than facilitating workshops, to minimise time and costs to entities.</li> </ul>
Q7.	<ul style="list-style-type: none"> <li>Do you agree that guidance to address the identified challenges will be useful to assurance practitioners?</li> <li>What areas, other than sufficient appropriate evidence, would be beneficial?</li> </ul>	<ul style="list-style-type: none"> <li>This question has not been analysed in this document and is not relevant to the NZASB's decision making. Responses to this question have been analysed by the assurance team and considered by the NZAuASB.</li> </ul>
Q8.	<ul style="list-style-type: none"> <li>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?</li> </ul>	<ul style="list-style-type: none"> <li>There were mixed views that the proposed amendments to the SPI reporting standard would be beneficial overall. Assurance practitioners supported the proposals, while preparers were concerned the proposals may create additional costs without corresponding benefits.</li> <li>Not-for-profit preparers generally preferred further guidance to help apply the existing reporting principles and practical guidance would go some way to helping address the assurance challenges.</li> </ul>
Q9.	<ul style="list-style-type: none"> <li>How do you use service performance information to make decisions?</li> <li>Do you face any challenges in understanding service performance information and what may be the cause of these challenges?</li> </ul>	<ul style="list-style-type: none"> <li>Most of the feedback on this question consisted of preparers and assurance practitioners' views on how users were using SPI reporting, rather than the views of users themselves.</li> <li>Many preparers considered that this information was not being used as no questions were asked around this reporting by any stakeholder. Bespoke funding reporting continues to exist, and this has not been substituted by SPI reporting.</li> <li>From the funders we heard mixed views:</li> </ul>

#	Consultation paper question	Summary of key messages
		<ul style="list-style-type: none"> <li>- Some said they do not use SPI reporting as a primary information source and preferred their grant application processes which involves more personal relationships and tailored reporting, even if this does not have assurance.</li> <li>- Some said they 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 over time. However, these funders also recognise that measuring performance is difficult and place the same value on information whether it is part of the financial statements or not.</li> <li>• SPI reporting was seen as a useful complementary resource, particularly for larger funders, but it was noted that they tend to focus on financial information more, recognising that measuring service performance can be difficult, and potentially the maturity of this information.</li> <li>• Some funders and regulators noted that they do use SPI reporting and did not have any challenges in understanding this information. The introduction of SPI reporting was valuable but there were views that the reporting has now been caught by data constraints consequently, diluting the usefulness of the reported information.</li> <li>• It was noted that for some entities, such as Philanthropic funders and non-donee NGOs that are solely government funded, they may not have any users of general-purpose financial statements, and SPI reporting. In some cases, donors were taking their funding overseas or setting up entities offshore (like foundations established via bequest), to avoid unnecessary reporting.</li> </ul>
Q10.	<ul style="list-style-type: none"> <li>• 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?</li> <li>• If not, what other actions should the XRB consider further?</li> </ul>	<ul style="list-style-type: none"> <li>• There were mixed views that the proposed changes would benefit users' understanding of SPI reporting. There were several comments that bigger changes may be needed to provide more useful information.</li> <li>• There were calls for greater requirements around impact reporting and allowing for some standardisation of performance measures by sub-sector to have the largest impact on user understanding.</li> </ul>

**Question for the Board:**

Q1. Does the Board have any **FEEDBACK** on the SPI consultation paper feedback analysis?



## Memorandum

**To:** NZASB Members

**Meeting date:** 9 October 2025

**Subject:** **Service Performance Reporting Discussion Paper  
– Potential Actions**

**Date:** 26 September 2025

**Prepared by:** Nimash Bhikha

**Through:** Michelle Lombaard

**Action Required**

**For Information Purposes Only**

### COVER SHEET

#### Project priority and complexity

<b>Domestic project purpose</b>	To address the reporting and assurance issues identified relating to service performance reporting and to ensure the service performance reporting requirements for Tier 1 and Tier 2 Public Benefit Entities (PBEs) in PBE FRS 48 <i>Service Performance Reporting</i> are appropriate to support high quality reporting of this information.
<b>Cost / benefit considerations</b>	This memo discusses the cost and benefits of amending PBE FRS 48 at this time, specifically considering the costs and benefits this would create to users, preparers and assurance practitioners.
<b>Project priority</b>	<b>High Priority</b> This project is a strategic priority for the XRB and impacts on the NZASB, NZAuASB and XRB Board. We have heard issues relating to the reporting and assurance of service performance information for several years, and actions to address these are needed to support the value, attitudes towards, and usefulness of, this information.

#### Overview of agenda item

<b>Board action required</b>	<b>High Complexity</b> <ul style="list-style-type: none"> <li>• <b>PROVIDE FEEDBACK</b> on the SPI discussion paper feedback analysis; and</li> <li>• <b>PROVIDE FEEDBACK</b> on the proposed next steps for this project.</li> </ul>
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## Purpose and introduction

1. The XRB released a consultation paper on the reporting and assurance of service performance information (SPI) in June 2025. This discussion paper was developed through a sub-committee of NZASB, NZAuASB and XRB Board members.
2. The purpose of this item is to seek the Board's views on next steps around addressing the reporting and assurance issues identified relating to SPI reporting.

## Recommendations

3. We recommend the Board **PROVIDE FEEDBACK** on the potential next steps for this project.

## Structure of this memo

4. This memo includes following sections:
  - (a) [Background](#)
  - (b) [Possible XRB actions](#)
  - (c) [Costs and Benefits of SPI reporting](#)
  - (d) [Proposed actions from the consultation paper](#)
    - [Proposed actions – Targeted amendments to PBE FRS 48](#)
    - [Proposed actions – Development of reporting guidance](#)

## Background

5. The XRB released a consultation paper on the reporting and assurance of SPI in June 2025 with the aim to confirm our understanding of the root causes of challenges that stakeholders are experiencing with SPI, and to obtain feedback on the potential solutions – which included a combination of targeted amendments to PBE FRS 48 *Service Performance Reporting* and developing further reporting and assurance guidance.
6. Through previous discussion with the NZASB in December 2024, the Board requested staff focus on gathering feedback in the following areas and developing responses that balance users' needs along with preparer and assurance practitioner concerns.

Key NZASB objectives from outreach	Response
Identifying a complete list of the root causes of challenges in reporting and assurance of SPI information	<ul style="list-style-type: none"> <li>• The consultation paper outlined four root causes of challenges, apart from first time adoption, the challenges also included:               <ul style="list-style-type: none"> <li>- A lack of clarity over reporting;</li> <li>- Differences between the public sector and not-for-profit (NFP) sectors;</li> <li>- Lack of maturity of SPI reporting; and</li> <li>- Verification challenges.</li> </ul> </li> <li>• Feedback supported these root causes and noted additional root causes include governance and assurance practitioners' financial focussed mindsets potentially limiting the use of SPI information</li> </ul>

Key NZASB objectives from outreach	Response
	<p>and auditors' limited capabilities around SPI information using methodologies designed to audit financial statements.</p> <ul style="list-style-type: none"> <li>• There were comments that there were measurement difficulties in measuring important performance (longer-term impacts).</li> </ul>
Exploring all potential actions and solutions which could respond to those challenges (including beyond changes to PBE FRS 48)	<ul style="list-style-type: none"> <li>• The consultation paper outlined targeted amendments to PBE FRS 48 as well as areas for guidance which could be developed in conjunction with specific sectors.</li> <li>• There was mixed support for the proposed changes to the standard, and support for more guidance and examples around SPI reporting.</li> <li>• We note other options which the XRB could take, beyond just changes to the standard, however these options were not proposed in the consultation paper following the sub-committee's discussions.</li> </ul>
Evaluating whether proposed solutions will address the challenges identified and result in a meaningful improvement in SPI reporting	<ul style="list-style-type: none"> <li>• The consultation paper asked stakeholders whether the targeted amendments to PBE FRS 48 would address the challenges around SPI reporting.</li> <li>• There was mixed support with assurance practitioners noting this would help, while preparers and other stakeholders noting that changes in the reporting principles would be unlikely to address challenges like lack of maturity in SPI reporting and attitudes towards SPI information.</li> <li>• Most entities highlighted that NFP compliance costs were high, and funding has decreased. This emphasises the need not to make changes where additional compliance costs will be imposed.</li> </ul>
Ensuring user needs and user feedback is obtained and considered, rather than just preparer and assurance practitioner feedback	<ul style="list-style-type: none"> <li>• We note that only a limited number of users have engaged in the consultation process, and more user views would be ideal to ensure any actions best address their needs.</li> <li>• From the feedback from users we have received, they have noted that SPI reporting is a useful supplementary information source, but their funding applications and reporting continue to be the preferred option to obtain tailored and relevant performance information (even if it does not have independent assurance).</li> <li>• We also heard from preparers that, in their view, users were not using the information, as no questions were being asked on the SPI information included in financial statements.</li> </ul>

7. Refer to Service Performance Reporting Discussion Paper – Feedback Analysis in agenda item 5.3a, for our analysis of the responses and feedback obtained from the consultation.

## Costs and Benefits of SPI reporting

### *Considerations made when PBE FRS 48 was issued*

8. PBE FRS 48 was developed in 2017 to establish requirements for SPI reporting and address a gap in the PBE Standards for Tier 1 and Tier 2 entities. The standard aimed to better meet the information needs of users of Public Benefit Entities (PBEs) general-purpose financial reports, recognising that financial statements alone do not provide all the information users require for accountability and decision-making purposes for not-for-profit entities.



9. As NFP entities reason for existence is not to make profits, but instead to fulfil a purpose, reporting on that purpose provides the users a more holistic informed view of the entity and what it has achieved with the funding made available.
10. The NZASB noted that financial statements provide some, but not all, of the information that users of general-purpose financial reports of PBEs require for accountability and decision making. The provision of SPI, together with financial statements, provides users with a more complete set of information.
11. When the NZASB first issued PBE Standards in 2013, it included non-integral guidance on reporting SPI in PBE IPSAS 1 *Presentation of Financial Statements*<sup>1</sup>, based on Technical Practice Aid 9 *Service Performance Reporting* (as issued by the New Zealand Institute of Chartered Accountants in 2007). This was intended as an interim step pending the development of a comprehensive standard on SPI. As such, since inception, PBE Standards have had requirements and guidance around service performance reporting.
12. The development of PBE FRS 48 involved comprehensive consideration of:
  - (a) the information needs of users of general-purpose financial reports;
  - (b) recent projects of other international standard-setters, including IPSASB's [Recommended Practice Guideline \(RPG\) 3](#); and
  - (c) existing legislative requirements in the public sector and different circumstances of not-for-profit entities.
13. At the time, the NZASB considered whether the costs of requiring reporting on SPI would be greater than the benefits, and noted for most entities (including NFPs), that the benefits of reporting this information would outweigh the costs<sup>2</sup>. However, for public sector entities who do not have legislative requirements to report SPI (for example, schools), it was noted that cost may be greater than the benefits.
14. As such, the NZASB refined the scope requirements for public sector PBEs to more closely link the scope with legislative requirements, and the standard would apply only to entities which are legislatively required to prepare financial statements in accordance with GAAP. However, no scope refinements were made for not-for-profit entities, as SPI reporting did not conflict with legislative requirements.

### **Updated considerations**

15. We note that the costs of preparing SPI have evolved and changed over time, particularly as entities and assurance practitioners have started implementing the requirements. We need to reflect upon whether the benefits remain sufficient compared to the costs.
16. As part of this consideration, understanding the current economic environment is an important factor, specifically as we clearly heard NFP entities' funding has been

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<sup>1</sup> Since superseded by PBE IPSAS 1 *Presentation of Financial Reports*.

<sup>2</sup> As agreed by the NZASB at the time during their July 2014 meeting.

significantly reduced in recent times, and the compliance costs has increased exponentially.

17. Feedback from the consultation has raised concerns that SPI reporting is viewed by preparers as a compliance exercise, with limited benefits, and this is diverting limited financial resources away from service delivery without any demonstratable improvements in quality or internal decision-making. Some preparers questioned the need for SPI reporting within financial statements and requested that the mandatory reporting requirements be removed, so entities can focus limited resources on service delivery.
18. We are also aware that there is increased scrutiny around the costs and management of NFP entities, with potential funding being moved overseas rather than kept in New Zealand. We also note one submission has outlined research performed that indicates a 25% increase in audit fees following the introduction of SPI reporting, which has increased costs without resulting in more service delivery. However, we also note that audit fees were generally increasing during 2022 (when PBE FRS 48 reporting became mandatory), given this was post-pandemic period, so assigning the whole increase to new mandatory requirements for SPI reporting could be erroneous.
19. We are conscious that any actions we consider around SPI reporting should not raise costs for NFP entities which already have limited resources, and this should be a key consideration in any possible actions. Our suggested way forward would be focused on the cost/benefit considerations and ensuring we are making the reporting landscape easier for NFP entities while also providing useful information to users.
20. There were strong sentiments that SPI reporting could be valuable if it aligned to funders' information needs, but in its current state, the reporting had limited use by funders or other stakeholders, who primarily rely on other channels for performance insights. SPI reporting is seen as a supplementary information source and, as such, is not given sufficient time or attention by users or entities.
21. Based on this, we consider the fundamental issue with SPI reporting is the lack of connection between the reporting and funding sources. As funders use other relationships and unverified special-purpose reporting for their funding decisions (which includes longer-term impact reporting), the general-purpose nature of SPI reporting becomes less valuable and less beneficial. This could indicate that reporting entities do not identify appropriate and meaningful measures with users of SPI reporting in mind.
22. We view the key benefits of SPI reporting within general purpose financial reports to include:
  - (a) Enhanced accountability – SPI reporting helps entities demonstrate how resources — often sourced from public funds, donations, or grants — are used to deliver services. This is especially critical for PBEs whose primary purpose is community or social benefit rather than profits. Most NFPs receive funding from the Government, and greater transparency and accountability around the use of public funds allows for comparability and enhance trust in PBEs operations.

- (b) Improved decision-making – By linking service performance to financial inputs, SPI reporting enables stakeholders (e.g., funders, regulators, community members) to make informed decisions about resource allocation, program effectiveness, and strategic direction to drive more funding in the future. Entities can only manage what they measure and by measuring service performance, it allows improvements and efficiencies of public money being spent.
- (c) Holistic performance assessment – SPI reporting provides a more complete picture of an entity’s performance by combining financial and performance data. This dual lens helps users evaluate societal impact alongside fiscal responsibility and allows for better understanding of the NFP entities, who they are, why they exist and whether their views align.
- (d) Improved processes and focus on understanding how entities operate – The reporting process itself prompts entities to reflect on their performance, refine their objectives, and improve service delivery. It also helps identify areas where systems and controls need strengthening which could lead to better financial and performance management.
- (e) Bridges the gap between financial and societal impact – SPI reporting complements financial statements by capturing the societal value of services delivered. It helps users understand not just what was spent, but what was achieved. Clear, accessible, and meaningful performance information helps stakeholders engage more effectively with the entity’s mission and activities.

**Question for the Board:**

Q1. Does the Board have any **FEEDBACK** on the costs and benefits of SPI reporting?

**Possible XRB actions**

23. We note that there is no clear solution which will address all the challenges in the reporting and assurance of SPI information. This is a complex area with interconnected issues and impacts on a sector which has limited time and resources. We have heard mixed views on most of the proposals in the consultation paper and any actions are likely to result in a mix of costs and benefits to different stakeholders to varying degrees.
24. We consider there are four broad options that XRB can take in response to the feedback provided from this consultation. None of the actions below will address all the root causes, but we are looking for the most pragmatic and useful way going forward which will benefit the largest number of stakeholders and create a foundation for stakeholders’ attitudes towards this reporting to adjust over time:

#	Possible Option	Costs	Benefits
1	Develop an Exposure Draft with all the proposed changes to the reporting standard	<ul style="list-style-type: none"> <li>May create additional costs to preparers, assurance</li> </ul>	<ul style="list-style-type: none"> <li>Help align preparers, assurance practitioners and users’</li> </ul>

#	Possible Option	Costs	Benefits
		<p>practitioners and users to understand the new requirements</p> <ul style="list-style-type: none"> <li>• Potential resistance from stakeholders due to perceived complexity or lack of fundamental changes</li> </ul>	<p>expectations around SPI reporting which may make processes more efficient</p> <ul style="list-style-type: none"> <li>• Allow for clearer understanding of what should be included in the reporting which may make reporting processes more effective</li> </ul>
2	Bringing in some of the proposed targeted amendments to the reporting standard, but not an authoritative NFP appendix, and performing education in other areas	<ul style="list-style-type: none"> <li>• May create additional costs to preparers, assurance practitioners and users to understand the new requirements</li> <li>• Risk of fragmented understanding if education is not uniformly delivered or adopted</li> </ul>	<ul style="list-style-type: none"> <li>• Help align preparers, assurance practitioners and users' expectations around SPI reporting which may make processes more efficient and effective</li> <li>• Certain guidance and education may be timelier than changes to standards</li> </ul>
3	Make no changes to the reporting standard but focus on developing further guidance instead to explain the existing principles within the standard and let SPI reporting continue to mature	<ul style="list-style-type: none"> <li>• Areas of the standard which are subject to different interpretations would continue and preparer and assurance practitioners may not refer to or use the guidance</li> <li>• May perpetuate inconsistent application of principles due to lack of authoritative clarification</li> </ul>	<ul style="list-style-type: none"> <li>• Allows for preparer and assurance practitioners' processes to continue to mature with the current standard but with enhanced clarity, which encourages sector-led innovation</li> <li>• Guidance is timelier to help support expectations and judgements, and could be issued, and adjusted more responsively, as SPI reporting evolves</li> </ul>
4	No action at this time	<ul style="list-style-type: none"> <li>• Risks that XRB is perceived as being an unhelpful and unresponsive standard setter</li> <li>• Potential for continued stakeholder frustration and disengagement</li> </ul>	<ul style="list-style-type: none"> <li>• Allows for preparer and assurance practitioners' processes to continue to mature with the current standards</li> <li>• Allows for preparers to minimise additional costs and avoids disruption and cost of change for entities currently comfortable with existing practices</li> </ul>

**Question for the Board:**

Q2. Does the Board have any **FEEDBACK** on the possible actions and next steps which XRB staff should explore further?

## Proposed actions from the consultation paper

25. Given the consultation paper proposed targeted amendments to PBE FRS 48 and further reporting guidance, we have considered those proposed actions further.

### **Proposed actions – Targeted amendments to PBE FRS 48**

26. We have considered the feedback across each area of the proposed amendments.

Potential targeted amendment to PBE FRS 48	Staff Analysis
<b>Clarifying the purpose and nature of service performance information</b>	
<p>Modifying the objective and scope of the standard to emphasise that the core purpose of this reporting is for accountability and that this does not include long-term impact reporting which entities are not accountable for.</p> <p>This would also clarify how the concept of appropriate and meaningful relates to service performance and highlighting the importance of identifying users and their needs</p>	<ul style="list-style-type: none"> <li>• The feedback indicated mixed views around the need for clarity over the purpose and scope of SPI reporting. Assurance practitioners generally supported the proposals, while preparers supported guidance to help apply existing principles.</li> <li>• We note that the objectives of SPI reporting is clear from the standard already (<a href="#">paragraph 2</a>). However, in practice, the perception and expectations around SPI have diverged from the text in the standard.</li> <li>• There is a need to ensure entity, assurance practitioner and user expectations are consistent.</li> </ul>
<b>Aligning with the PBE Conceptual Framework</b>	
<p>Aligning the discussion of qualitative characteristics in the standard with those in the PBE Conceptual Framework to provide a consistent conceptual basis for preparing service performance information.</p> <p>This would help preparers understand that concepts like verifiability, relevance, reliability, and faithful representation apply to service performance information as much as they do to financial information.</p>	<ul style="list-style-type: none"> <li>• The feedback indicated mixed views around the need to align the qualitative characteristics in the standard with those in the PBE Conceptual Framework.</li> <li>• We note that the qualitative characteristics are included within the standard already (<a href="#">paragraph 9</a>) and while the text in the standard differs slightly to the PBE Conceptual Framework, they represent the same fundamental characteristics, but are just tailored to the context of performance information, rather than financial information.</li> <li>• We note different attitudes towards different qualitative characteristics have emerged due to non-financial staff being involved in the measurement of SPI and reverting to traditional financial terminology may be more problematic.</li> </ul>
<b>Basis of preparation requirements</b>	
<p>Adding requirements to disclose the basis of preparation for service performance information like accounting policies in financial statements. While disclosures around basis of preparation, significant judgements and specific accounting policies are required across the financial report under <a href="#">PBE IPSAS 1 Presentation of Financial Reports</a>, we understand that some preparers have not seen this as applying to service performance information.</p>	<ul style="list-style-type: none"> <li>• The feedback indicated mixed views around the need for more requirements over the basis of preparation for SPI.</li> <li>• Like financial statements, management disclosing how they have prepared the SPI and how the performance measures were selected will help entities explain their thought processes around their service performance, which would be useful to users and stakeholders.</li> <li>• We note that this requirement already exists within PBE IPSAS 1, where entities are required to disclose the measurement basis (or bases) used in preparing the financial</li> </ul>

Potential targeted amendment to PBE FRS 48	Staff Analysis
<p>We would look to ensure appropriate basis of preparation disclosure requirements are explicitly within the requirements of PBE FRS 48 to reinforce the importance of these disclosures. This would include explaining how user needs were identified, how performance measures were selected and the measurement techniques and approaches used.</p>	<p>report (which includes their service performance information) (<a href="#">Paragraph 132</a>) as part of their significant accounting policies.</p> <ul style="list-style-type: none"> <li>• We note in practice that these disclosures are not being consistently made by preparers nor challenged by assurance practitioners.</li> </ul>
<b>Disclosure considerations</b>	
<p>Clarifying the existing requirements around disclosing significant judgements. The clarifications would help entities identify and explain the material aspects of the processes used to select performance measures, the key assumptions and limitations in their measurement approaches.</p>	<ul style="list-style-type: none"> <li>• The feedback indicated mixed views around the need for clarity over the disclosures of significant judgements in relation to SPI measurement and reporting.</li> <li>• We note the standard already has requirements around the need for entities to disclose judgements that have the most significant effect on the selection, measurement, aggregation and presentation of SPI reported in accordance with the standard that are relevant to an understanding of the entity's SPI (<a href="#">paragraph 44</a>).</li> <li>• We note in practice that these disclosures are not being consistently made by preparers nor challenged by assurance practitioners.</li> </ul>
<b>Sector-neutral standard with an authoritative appendix</b>	
<p>Adding an authoritative appendix to the standard could provide application supporting material to clarify the principles of the standard tailored for not-for-profit entities. Some topics the not-for-profit appendix could focus on are:</p> <ul style="list-style-type: none"> <li>• Steps for developing a performance framework.</li> <li>• Linking reported activities within the confines of an annual reporting period.</li> <li>• Selecting appropriate measures and considering contractual funding agreements.</li> </ul>	<ul style="list-style-type: none"> <li>• The feedback from preparers and assurance practitioners have noted that principles of SPI reporting would be similar across the public sector and not-for-profit sector.</li> <li>• It was noted that for the topics specified it may be difficult to develop requirements which would work for all NFP entities, and this may cause more confusion and other challenges.</li> <li>• We note that creating a separate appendix could result in confusion and differences between NFP and public sector reporting and cause more challenges for users. We consider further sector-specific guidance may be more beneficial to help illustrate differences between entities and performance reporting.</li> </ul>

### *Other considerations*

27. There was feedback received from several stakeholders that amending the standard at this time would not be appropriate. PBE FRS 48 has only been mandatory since 2022 and Tier 1 and 2 PBEs have already taken significant steps to understand the standard and develop their reporting. There is a concern that changes to the standard would result in more disruption and additional costs so quickly after PBE FRS 48 became mandatory.
28. As preparers and regulators, and the limited number of users we have spoken to, have generally noted the principles of the standard are robust and clear and the expectations around what to report have become clearer over time. A key root cause of the challenges with SPI reporting is the lack of maturity of this reporting. Any changes to PBE FRS 48 will

not address this root cause and will likely result in the same challenges continuing, but under slightly amended requirements.

29. However, we also note that time may solve efficiency challenges but not effectiveness challenges. While the standard has appropriate principles in place, the challenges and current immaturity of SPI reporting has resulted in this reporting not following the intention of the standard. We continue to believe that PBE FRS 48 will be a good standard for SPI reporting, provided preparer and assurance practitioners' mindset towards this information develops over time.
30. We have also heard that amendments to the reporting standard at this time may result in challenging discussions around prior year restatements which could add additional costs, especially if the amendments are designed to clarify how the principles should have always been applied.
31. We have heard from some assurance practitioners that entities are still embedding processes and controls that will enable better SPI reporting in the future, and they have treated entities' improvements to their SPI reporting as improvements over time, rather than prior period errors. However, these considerations may change if the purpose and scope of SPI reporting is changed.
32. We note that the IASB's, and the IPSASB's developing Post-Implementation Review (PIR) processes typically do not consider doing a PIR of a financial reporting standard until it has been in use for approximately five years. This allows for the maturity in the reporting and allows for better identification of fundamental issues within the standard, as opposed to transition and adoption challenges. PBE FRS 48 was mandatory from 1 January 2022 and is still in the initial implementation phase, given the fundamental shift of reporting for Tier 1 and Tier 2 NFPs. If we aligned to such a timeframe, then any potential amendments should be considered in 2028 (after the end of the 31 December 2027 reporting period).
33. We also note that the Parliamentary inquiry into performance reporting and public accountability within the public sector is also currently in progress, and the results of that inquiry may have impacts on PBE FRS 48 in terms of its application to public sector entities. Phase 2 of the inquiry, which will contain specific recommendations for improvements to performance reporting and public accountability settings, is expected to be complete by May 2026.
34. While any changes in PBE FRS 48 now would be focussed on NFP entities, they would be equally applicable to public sector entities and would require consultation and impact their reporting. There is a risk of amending PBE FRS 48 now, and then possibility needing to amend it again in 2026 after the conclusion of the Parliamentary inquiry, which will create additional costs and confusion for PBEs.

**Question for the Board:**

- Q3. Does the Board have any **FEEDBACK** on the possible actions to develop targeted amendments to PBE FRS 48?

## **Proposed actions – Development of reporting guidance**

### *Repurposing current guidance*

35. We have considered the feedback across areas for potential reporting guidance. The XRB has already released several guidance documents to support PBE FRS 48, which include:

- [Explanatory Guide A10 Service Performance Reporting](#)
- [Key areas for Tier 1 & 2 entities to consider when applying PBE FRS 48](#)
- [Disclosing how you measure your service performance](#)
- [Service Performance Reporting Factsheet for Tier 1 & 2 Entities](#)

36. However, feedback has noted that preparers and users have not reviewed these guidance documents, and some preparers were not aware of them. For preparers that did know about these guidance documents, they noted that they were long, detailed and overwhelming, and were not referred to, particularly for finance teams of NFP entities who have limited time and resources to spend on reading guidance.

37. We consider that shorter reporting guidance can be developed, using the information contained within EG A10, to allow for it to reach a wider audience and be referred to more frequently as entities look to prepare their SPI reporting. We could create guidance across the following areas:

1	Purpose and scope of service performance information
2	Core reporting requirements around service performance information
3	Principles and qualitative characteristics of service performance information
4	Deciding what service performance information to report
5	Linking service performance information to financial information
6	Disclosing service performance information judgements
7	Comparative service performance information
8	Preparing for assurance over service performance information
9	Presentation of service performance information
10	Continuous improvement around service performance reporting

### *Development of additional guidance for preparers and assurance practitioners*

38. We also consider that further guidance could be developed across the following areas, which could be added to the guidance developed from EG A10 above:

- (a) Why SPI information is not a story telling mechanism but an accountability mechanism.
- (b) The process of determining appropriate and meaningful measures including governance involvement, materiality considerations, linking to strategic objectives, the pitfalls around reporting useful information outside of the SSP, considerations around user's needs, and a mix of qualitative and quantitative information.
- (c) Considerations and importance of data collection, internal controls and the verifiability of information for internal and external decision-making.



- (d) Key judgements necessary around SPI and how it is measured and disclosed.
- (e) Usefulness of performing a step-back holistic assessment to ensure SPI information is valuable and useful.

*Good practice examples*

- 39. Stakeholders also supported the need for sector-specific tailored examples of good practice SPI reporting. We will continue to explore how to facilitate these, and whether the XRB, as the standard-setter, has a role in issuing good practice examples, or whether this can be done through the regulator or another umbrella organisation.
- 40. There is a risk that any examples issued may be treated as templates and undue emphasis placed on the guidance by reporting entities or assurance practitioners. There is also a risk that good practice examples may become outdated relatively quickly, as sector processes evolve and this type of reporting matures. These risks will need to be considered if any good practice examples are issued.

**Question for the Board:**

- Q4. Does the Board have any **FEEDBACK** on the possible actions to develop further reporting guidance?

# Reporting and assurance of service performance information

## Tier 1 / Tier 2 not-for-profit entities

### What we heard – September 2025

#### Background to the consultation

The External Reporting Board (XRB) issued a consultation paper to confirm our understanding of challenges that Tier 1 and Tier 2 not-for-profit entities, assurance practitioners and users are experiencing with service performance information (SPI) and to seek feedback on potential actions to help address those challenges. This feedback document summarises what we heard from stakeholders and represents opinions rather than facts.



#### Outreach events

We held outreach sessions with Tier 1 and Tier 2 not-for-profit entities, professional services firms, funders, regulators and assurance practitioners which involved virtual sessions, and in-person sessions throughout June to August 2025. We note the level of engagement from stakeholders was relatively low compared to the level of informal feedback we have heard since PBE FRS 48 *Service Performance Reporting* was issued.

We thank everyone who took the time to attend our outreach events on these topics and provided written submissions to our consultation paper.

#### Overall messages

Feedback highlighted that reporting and assurance challenges for not-for-profit entities stem from low maturity around performance reporting processes and frameworks, limited financial, volunteer and time resources, undeveloped systems and internal controls around performance information, and differing expectations around the nature and role of SPI reporting by both preparers and assurance practitioners.

We heard challenges around SPI reporting are improving over time, but sometimes entities and assurance practitioners still place greater emphasis on financial statements and do not focus on SPI reporting until the end of the reporting process. We also heard concerns raised by preparers that assurance practitioners often do not understand entities, and their objectives, beyond financial results, which adds to the challenges.

We heard that SPI reporting often defaults to quantitative measures, even when qualitative descriptions could be more appropriate and meaningful. There were mixed views around the drivers for this, which ranged from entities not identifying and capturing data to adequately support qualitative measures, to assurance practitioners requesting only quantitative measures that can be verified easily be included in SPI reporting. In many cases, preparers highlighted that information which may be more difficult to verify is moved to areas of the annual report which are not subject to assurance.

In many workshops, participants raised that SPI reporting could be more valuable if it aligned to funders' information needs. Some preparers believe that SPI reporting has limited use by funders or other stakeholders, who primarily rely on other channels for performance insights. We heard that SPI reporting is sometimes seen as a supplementary information source and, as such, is not given sufficient time or attention by users or entities.

Concerns were raised by preparers that SPI reporting is a compliance exercise, and this is diverting limited resources away from service delivery without any improvements in quality or decision-making. These preparers asked us to consider the value of this reporting and whether this reporting should be removed, so entities can focus those limited resources on bettering New Zealand.

In contrast, some preparers indicated the value of service performance reporting and the ability to report on something other than financially focussed reporting. These entities highlighted their preference for practical, sector-specific guidance and examples, rather than premature and costly changes to reporting requirements, while assurance practitioners generally supported proposals to clarify principles in the reporting standard. Collaboration, tailored communication, and a shift in mindset from preparers, assurance practitioners, funders and other users are key to more effective SPI reporting for not-for-profit entities.



## Key themes

Key themes across the areas within our consultation paper were:

### → Challenges and possible actions

There was agreement that the root causes of the reporting and assurance challenges around SPI reporting are due to a lack of clarity over reporting, the lack of maturity of service performance reporting and verification challenges around qualitative information. There were mixed views that differences between the public sector and not-for-profit sector are a direct cause to any of the challenges.

Some feedback noted that governance of the entity is not involved in determining what SPI information to report, and entities rely upon their assurance practitioners to help ensure their reporting is appropriate. Stakeholders noted that, while entities have very limited resources, more governance involvement and commitment of time and resources is needed around reporting SPI information, with a focus on identifying the right measures which are useful for internal and external decision-making and developing systems to help capture that information.

While this could be a costly exercise, once set up successfully the preparation of SPI reporting could be incorporated into internal reporting practices, which would enable regular monitoring and easier processes.

### → Potential amendments to PBE FRS 48 *Service Performance Reporting*

There were mixed views that the proposed amendments to the SPI reporting standard would be beneficial overall. Assurance practitioners supported the proposals, except for an authoritative appendix for not-for-profit entities, as they believe that the proposals would clarify important matters and would help entities with their SPI reporting processes. Preparers are concerned the proposals may create additional costs and require the disclosure of more information, which would then need to be discussed with assurance practitioners. Not-for-profit preparers generally prefer further guidance to help apply the existing reporting principles.

There were also strong views that amendments to the reporting standard should only be made where they would directly solve the root cause of the challenges. There were doubts that the proposed amendments would ultimately address the current challenges around the value and usability of SPI reporting.

### → Potential reporting and assurance guidance

Some stakeholders noted that the current reporting guidance was clear and useful, while others were unaware that guidance existed. Most supported the need for further reporting guidance around how to identify and choose what information to report, in an efficient manner without creating additional costs. There were calls for more examples of exemplar SPI reporting and descriptions of evidence trails to help calibrate expectations around what information could be reported and what evidence should be retained.

There was general agreement that assurance guidance on the areas identified in the consultation paper would be useful to assurance practitioners. There was support for guidance on gathering sufficient appropriate evidence for different types of information, particularly qualitative information, and the application of the concept of materiality in identifying material measures and tolerance for misstatement. We also heard the need for guidance for judgements over how to determine “appropriate and meaningful” information for both preparers and assurance practitioners.

### → Users’ considerations

Many preparers questioned the value of SPI reporting for users, noting that other forms of reporting around performance already occur through funding arrangements where tailored and timely information can be reported to funders. SPI information within annual reports is supplementary and duplicative, and less valuable, even if it is independently assured. It was noted by preparers that personal trust and relationships are more important to funders for decision-making, rather than annual external reporting.

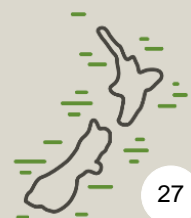
Other stakeholders, including regulators, noted that SPI reporting is useful and appropriate in its current state, but standardisation of SPI reporting could potentially raise the general understanding of that information.

## Next steps

We will discuss this feedback with the New Zealand Accounting Standards Board (NZASB) to decide on next steps for SPI reporting standards.

## Did we miss something?

If we did not capture your feedback correctly, please let us know at [accounting@xrb.govt.nz](mailto:accounting@xrb.govt.nz).



Kia ora koutou,

We welcome the opportunity to comment on the reporting and assurance of service performance information.

Our submission is informed by peer review research we have personally conducted on the New Zealand setting, including:

- Chen, X. and Scott, T. (2025). The Cost of Auditing Service Performance Information. *International Journal of Auditing*, 29, 454-474.
- Hsiao, P.-C. K., Low, M., and Scott, T. (2024). Institutionalisation of sustainability performance measurement and reporting: Insights from Victoria (Australia) and New Zealand universities. *British Accounting Review* (forthcoming).
- Hsiao, P.-C. K., Low, M., and Scott, T. (2023). Service performance reporting and principles-based authoritative guidance: An analysis of New Zealand higher education institutions. *Meditari Accountancy Research*, 32, 367-395.

It is also informed by the broader literature on service performance and a literature review we conducted for the AASB. We understand that it should be available shortly on their website.

Nga mihi nui,

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**Question 1 (for reporting entities and assurance practitioners): 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?**

We agree that the four causes described leads to challenges in preparing and assuring service performance information. We expect measurement difficulty to pose another key challenge, particularly in relation to measurement of outcomes and effectiveness. Though the consultation paper clarifies that reporting on long-term impacts is not required since entities are not accountable for this, information on outcomes and effectiveness remain important to assessment of progress towards mission attainment despite difficulties in identifying and measuring these aspects.

We expect limited expertise and monetary resources to contribute to challenges in reporting and assurance practices, and this is mentioned in ‘Differences between the public sector and not-for-profit sectors’ and ‘Maturity in service performance reporting’. For instance, Chen and Scott (2025) find assurance requirements on the Statement of Service Performance (SSP) prepared by Tier 1 and Tier 2 entities increased audit fees by 24%. As audit fees are notably ‘sticky’, this is a large single-year increase in costs. The study reports only one qualified opinion in the sampled SSPs, suggesting there is no widespread issue of qualified audit reports. The increase in audit fees is significantly larger for Tier 2 entities, suggesting the processes, systems, controls, and documentation at not-for-profit entities appear to be key drivers of the increase in costs. As the increase also applies to assurance by larger audit firms, that likely have experience auditing SSPs in the public sector, there does not appear to be a spillover in improved efficiency from public sector experience. Overall, there seems to be significant costs associated with service performance reporting and this is driven by the readiness of the client.

**Question 2 (for reporting entities and assurance practitioners): 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 anticipate targeted amendments to PBE FRS 48 requirements would provide greater clarity around expectations, but these changes may not fully address current challenges if they are contributed by measurement difficulty and resource limitations. Given that the proposed

amendments provide further principle-based guidance, we do not anticipate significant additional costs, particularly relative to amendments that would require changes to data collection and reporting practices.

In considering potential amendments, we believe it is important to note that introduction of PBE FRS 48 has significantly changed service performance reporting practices, and any subsequent amendments would likely result in some changes to reporting practices. Using a sample of New Zealand higher education institutions, Hsiao et al. (2023) find PBE FRS 48 encouraged entities to provide more contextual information about why the entity exists and improved articulation of the link between service outputs and intended outcomes. Thus, for well-resourced entities, PBE FRS 48 has presumably desired effects on reporting. We view any amendments that simplify disclosure requirements, enhance comparability between organisations in subsectors, and aid in report preparation as desirable for resource constrained organisations, while still allowing and encouraging them to tell their story, potentially through narrative disclosures.

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

See response to Question 2.

**Question 4 (for reporting entities and assurance practitioners): 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?**

More guidance to assist with the implementation process is expected to be useful. Though potentially sector-specific guidance would be more useful when determining ‘appropriate and meaningful performance measures’ and ensuring greater comparability across organisations operating in the same sector.

**Question 5 (for reporting entities and assurance practitioners): 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.**

Yes.

**Question 6 (for reporting entities): 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 view that sub-sector guidance developed in collaboration with entities operating within the sub-sector would be valuable, as these entities have a practical understanding of the operations and challenges involved in running such organisations. Guidance providing suggested performance measures is expected to reduce compliance costs. It would be useful if the guidance includes suggestions of possible outcome and effectiveness measures, supporting report preparers in forming the most suitable set of performance indicators for their organisation and then telling their story beyond these measures in narrative disclosure. Further, comparability between organisations promote accountability and having suggested performance measures could lead to enhanced information usability.

**Question 7 (for assurance practitioners): 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?**

Chen and Scott (2025) find the use of NZ AS 1 appears to reduce the increase in audit fee for smaller charities (Tier 2). Thus, efforts along the lines of NZ AS 1 to clarify expectations and materiality would presumably further reduce the assurance burden. Research from the non-financial space on environmental reporting also suggests that double materiality can be particularly challenging.

**Question 8 (for assurance practitioners): 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?**

See response to Question 7.

**Question 9 (for users): 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?**

We view that the service performance information disclosed by entities is straightforward and easy to understand. Comparability across organisations can be challenging due to the heterogenous nature of not-for-profits. There are also limited information useful for performance evaluation and understanding progress towards mission attainment.

**Question 10 (for users): 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 may not read or show much interest in information related to basis of preparation and further disclosures on the report preparation process. Individual donors and beneficiaries often have limited interest in formal disclosure, where donors prefer narrative reporting that adopts a story-telling approach, whereas beneficiaries tend to only want information that affects them personally. Evidence on whether donor behaviour is influenced by service performance information is mixed. Considering these perspectives and the cost of providing service performance information, we view mandating basis for preparation should be carefully considered.





**Platform Charitable Trust**

Salmond House  
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Te Aro  
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Monday 18 August 2025

External Report Board

Submitted via email to: [accounting@xrb.govt.nz](mailto:accounting@xrb.govt.nz)

[admin@platform.org.nz](mailto:admin@platform.org.nz)

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Tēnā koutou, External Reporting Board

**Submission on Reporting and assurance of service performance information – Tier 1 and 2 not-for-profit entities**

Thank you for the opportunity to submit on the consultation about Reporting and assurance of services performance information – Tier 1 and 2 not for profit entities.

**Introduction**

This submission is presented by Platform Trust the national peak body representing and advocating for community and non-government organisations (NGOs) or not for profit entities throughout Aotearoa New Zealand that provide vital mental health and addiction services and support. Our 95 member organisations and 119 non-member organisations comprise a diverse range of charitable or not for profit entities, including community-based organisations, service providers, and advocacy groups dedicated to improving the wellbeing of individuals and communities affected by mental health challenges and addiction. A significant number are subject to reporting and assurance of services performance information requirement for tier 1 and 2 not for profit entities.

Platform welcomes the opportunity to provide feedback on the External Review Board's consultation document *Reporting and assurance of services performance information – Tier 1 and 2 not for profit entities*. Below is our response to the issues and question raised in the consultation document.

1. Question 1 (for reporting entities and assurance practitioners)

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?

Yes, we agree that the root causes as described are contributing to the key challenges in preparing and assuring service performance information. Platform raised concerns during March 2024 highlighting that some mental health and addiction NGOs in Tier 1 and Tier 2 had difficulties getting their statement of services performance signed by external auditors incurring significant compliance costs as a result. These concerns were passed on to the External Reporting Board (ERB).

2. Question 2 (for reporting entities and assurance practitioners)

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 amending the requirements would help address the current challenges by removing reducing or minimising ambiguity and misinterpretation. If the amendments make things clear, this should hopefully not result in additional costs. The reverse of this i.e. reducing costs would be what we would hope for, and the current costs were becoming insurmountable.

3. Question 3 (for reporting entities and assurance practitioners)

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

The proposed targeted amendments make reasonable sense.

4. Question 4 (for reporting entities and assurance practitioners)

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?

It is important that under e) the potential authoritative appendix to the standard, consideration should be made to ensure this is simply to avoid unintended consequences of adding another layer of complexity creating a situation that might cause ambiguity in relation to the areas of focus mentioned.

5. Question 5 (for reporting entities and assurance practitioners)

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.

The proposed topics in e) make sense within the content of the response under 4 above.

6. Question 6 (for reporting entities)

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?

Yes, we agree that XRB hosting workshops would be helpful. We suggest that for a wide reach to consider a balance between in-person and online workshops. Having guidance materials and examples of services performance reports available online (could XRB website plus Charity Services) might be helpful.

7. Question 7 (for assurance practitioners)

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?

Not applicable.

8. Question 8 (for assurance practitioners)

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?

Not applicable.

9. Question 9 (for users)

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?

Not applicable.

10. Question 10 (for users)

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?

Not applicable.

**Conclusion**

Our member organisations, like many charities, often operate with limited resources, relying on a combination of government funding, philanthropic grants, community fundraising, and donations. Many, if not all comprise a diverse range of charitable or not for profit entities are in Tier 1 or 2 have reported challenges and difficulties in getting their statement of services performance signed off and in doing so have incurred increased cost for assurance purposes. We hope the proposed reporting and assurance of service performance information make improvements to reduce the burden experience and the increased cost.

Ngā mihi,



Memo Musa

**Chief Executive**

## Who are we?

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Platform is a membership organisation and peak body representing the mental health and addiction NGO and community sector. Platform actively collaborates with a network of 6 Regional Navigate Groups covering mental health and addictions services in the community. Currently 94 NGOs are members of Platform that provide support to tāngata whai ora (people seeking wellness) including Māori and Pasifika providers, and whānau and peer-led services.

Collectively across 2023/24, approximately 73,000<sup>1</sup> people accessed mental health and addiction NGO services, making up approximately 42% of all people accessing specialist support for their mental health or addiction needs in Aotearoa. NGO and community providers also work alongside primary care teams to support over approximately 92,250<sup>2</sup> people who used Access and Choice programme, for mild to moderate mental health needs.

There is a large and diverse workforce across the broader mental health and addiction NGO and community sector with a range of staff working across different occupational groups which in 2022 consisted of about 5,820 staff fulltime equivalents<sup>3</sup>.

**END**

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<sup>1</sup> Te Whatu Ora|Health New Zealand PRIMHD extract dated 27 November 2024, analysed by Te Pou.

<sup>2</sup> Te Hiringa Mahara | Mental Health and Wellbeing Commission. (2022). *Access and Choice Programme: Report on the first three years | Te Hōtaka mō Ngā Whai Wāhitanga me Ngā Kōwhiringa: He purongo mō ngā tau tuatahi e toru*. Wellington: Te Hiringa Mahara.

<sup>3</sup> Te Pou. (2023). *Mental health and addiction workforce: 2022 primary, community, and secondary healthcare settings*. Auckland: Te Pou.



21 March 2025

Wendy Venter  
Chief Executive  
External Reporting Board  
Level 6  
154 Featherston Stret  
**Wellington**

via email: [accounting@xrb.govt.nz](mailto:accounting@xrb.govt.nz)

Dear Wendy,

**Reporting and Assurance of Service Performance Information – Tier 1 & 2 NFP Entities**

The National Council of YMCA's of New Zealand Inc is the national body representing the YMCA Associations across New Zealand. We are a Tier 2 Charity.

Collectively the YMCA Associations are a network of ten independent regionally based charities with a diverse range of offerings including low-cost accommodation, fitness & recreation centres, gyms, outdoor education camps, childcare services, youth development, social services, tertiary education, alternative education and employment support'. We have been operating in New Zealand for over 150 years, supporting communities across the country.

Collectively our national turnover is around \$60 million per annum, and several of our members as well as ourselves are in the Tier 1 and 2 category.

Please find attached our feedback to the questions raised in the Consultation Paper issued in June 2025.

Best Regards,

Paul Dalton  
**Secretary- General**

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## Feedback on the Questions Raised

**Q1: Do you agree that the root causes described above are contributing to the key challenges in preparing and assuring service performance information?**

- Yes, we can see those factors being challenging from some NFP entities.
- Having said that, they are not a particular problem for us, and we have found the existing guidance material from XRB to be adequate for our needs so far.

**Do you have any other feedback on the challenges?**

- We think it would be good to get a sense of the scale of those who are having real issues, so that a whole lot of work isn't done (and more obligations added) if the vast majority of Tier 1 & 2 NFP's and Assurers are actually OK with the status quo and the information already available.
- It may be too soon, but it could be useful to assess whether the requirement to have audited Service Performance measures is actually making a difference to the quality of Tier 1 & 2 reporting. Are they adding value for the readers of those reports, or is it simply another level of bureaucracy that has been imposed for all the right theoretical reasons but in reality hasn't made a material difference to their understanding or wasn't actually needed in the first place?

**Q2: Do you agree that amending the requirements of PBE FRS 48 at this time would help address current challenges?**

- If the changes are the most effective way to help those that are struggling, then yes.
- The only thought here is whether there are alternative ways to address the issues some NFP's are having, or is it case of "if the only tool you have in the toolbox is a hammer, everthing looks like a nail"? For example is a specialist helpdesk/team a viable option to assist organisations on a 1 to 1 basis for a limited time while everyone gets up to speed.

**Do you anticipate additional costs will be incurred if requirements are amended?**

- It depends on what the amendments are. For clarifications and guidance, it would not be anticipated, but if there are adding additional requirements then yes.

**Q3: Do you agree with the proposed targeted amendments in (a) to (d)?**

- (a), (b) and (d) look OK from the point of view as they are simply clarifications.
- (c) looks to be adding more obligations and extra work for reporters and assurers so would less keen on this. Would question whether this is really necessary?

**Are there other areas that may need clarifying and why?**

- Nothing from our perspective, but then again we are OK with the status quo.

**Q4: 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?**

- If clarifications and guidance alone will solve people's problems, we don't have a view on whether an Appendix is the best way to deliver that, or some other approach to included it in the documentation would be better. If it is, then great!

- Our question would be that if some NFP entities are struggling with the existing documentation, then will adding more pages of text fix it, or do they need some other form of help?

**Q5: Do you agree with the topics for the proposed not-for-profit appendix in (e)?**

- Not sure – if those topics are the ones that people are requesting more clarification and guidance on then yes.
- From our own perspective we aren't looking for that information, but as above, we find the existing guidance information adequate for our needs.

***If not, please explain the areas that could be clarified?***

- Whatever the big issues are that are concerning/ confusing people.

**Q6: Do you agree that XRB hosting workshops for significant sub-sector preparers to develop further supplementary material for service performance reporting would be beneficial?**

- Yes, they could be.
- Whether it is through such workshops or via other means, we would suggest finding out the scale of the issue before doing any more work. If there are 900 Tier 1 Charities and a few thousand Tier 2's, how many of those actually have a problem? If it is less than 100, is a more targeted approach better?

***What other material or approaches to guidance would be beneficial?***

- This would depend on the actual scale of the problem.
- It would also depend on whether more documentation is the best solution (see comment on the hammer earlier), or does it just add to the problem for those in need?
- Whatever the path chosen, we would recommend some solid pre-testing and revision with a group of NFP's who are experiencing issues, so that they can provide feedback before launching to the masses.

**Questions 7 to 9** are outside of our scope as a reporting entity





# **KEA NEW ZEALAND LIMITED**

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**To: Wendy Venter FCA**

**XRB**

**Submission on: Reporting and Assurance of Service Performance Information**

**From: Craig Fisher FCA**

**Date: 27 August 2025**

## **Background/Introduction**

Thank you for the opportunity to submit on this consultation and well done on the process adopted to get to this point and to being open to feedback and modifications to help make this a more useful part of the For-Performance reporting framework.

For completeness and to help contextualize my perspective into this topic, my background is a Chartered Accountant of some 30 years', largely in public practice, experience. The bulk of my professional career was in auditing and as an audit partner operating across all three sectors in NZ. I have been a statutory auditor, a licensed auditor, and an Approved Auditor of the Auditor General. I have a long involvement in standard setting being a member of and chair of the Institute of Chartered Accountant's Professional Practices Board, which subsequently became the Professional Standards Board, for 9 years, and then a member of the XRB's NZAuASB from inception for 7 years. I currently chair XRAP. For clarity, I was involved in the four workshops with key participants run by the XRB in late 2024 and subsequent discussions with the XRB team.

I have also been an author and an educator of accountants and governing bodies mainly in relation to audit, assurance, and ethical matters, but also governance and best practice reporting. I have been, and continue to be, a governing body member of a range of For-Purpose organisations.

I have been involved in the area of Service Performance reporting since its inception in NZ. My involvement has been from the various perspectives of a standard setter, auditor, educator, preparer and governing body member, and philanthropic funder.

## General Comments

1. **Supportive of the concept** - I fully admit that I am a 'fan boy' of Service Performance reporting as see huge value in it when done well. I have first-hand experience of the positive and transformational change in focus it can help engender in For Purpose organisations from a governance and management perspective. I have also seen the benefits in communicating with stakeholders and for greater clarity in funding decisions of charities. In short, For Purpose organisations, as it says on the tin, exist for purpose. Yet for too long we have tried to just force them to report on financial measures. This leads to unintended consequences and sometimes perverse incentives, outcomes, and inappropriate focus. The introduction of Service Performance reporting is in my view an important, innovative, and positive step towards helping For-Purpose organisations both focus and then report on what actually matters. i.e. why they exist and what that have done towards delivering on their purpose.

Hence, I am strongly supportive of the concept of service performance reporting for PBE's as this helps both organisations and those they serve to better focus on their purpose and their delivery on that. i.e. what really matters.

2. **Separating change noise & introduction challenges from value of the underlying concept** – This is a relatively new requirement for many organisations. It is also being applied in a sector where some entities are resource poor in terms on internal financial reporting capacity. Albeit I observe that not all are resource poor (However most still carry that mindset) and it is interesting how smaller charities, on the whole, have coped much better with this change than the larger charities to whom it has mandatorily applied to more recently. Additionally, the sector as a whole has been grappling with many other challenges such as funding, Govt policy changes, increased need for charitable services etc. As a mandatory requirement in this broader context of environment challenges, I suggest SSP reporting may have received an outsized adverse change reaction as a result. There is always a 'reaction' to change. Especially when the initial feeling may be that this is just increased compliance impost without full appreciation of the positive opportunities it presents, and underlying rationale. It is natural for there to be some negative reaction to change initially. I am not in any way convinced that this indicates the underlying policy and intent of service performance reporting is wrong.

3. **Maturity and evolution** - this is a journey or evolution of reporting for many who may have not previously used this lens to measure, assess, and report on their organisations. As such the appropriate information gathering and reporting systems

are immature. Accounting systems are generally mature thanks to many decades of standards and systems in this area. Qualified accountants and auditors schooled their entire careers in generally accepted standards for their work have helped with this financial reporting maturity. The skills, experience and systems for service performance measurement and reporting is understandably much more immature. Understanding of, and prevalence and maturing of suitable systems for service performance information will take time.

4. **Service performance reporting is not impact reporting** - Definitions of such terms opens up arguments and debates. This can be an academic distraction. However, a requirement for service performance reporting is in my view a 'gateway' measure for moving an organisation towards impact reporting. This is a good thing. We should not get hung up on terms. We should celebrate the positive direction of travel. This is about positive communication via SSP reporting for better decision making and engendering ongoing stakeholder support.
  
5. **This is fundamentally a governance issue** - My observation across many entities is that there has been a failure of governance in many For-Purpose organisations in that governors have not been appropriately focused on measuring and reporting performance in their particular context. This is an uncomfortable truth for governors and often not addressed, or is deflected due to them being 'involved with a charitable organisation'. Many governors have not done the hard work of determining what are the appropriate measures of performance, implementing appropriate systems and measuring these. From a good governance perspective, reporting on service performance cuts to the heart of the governance role. Yet in the past many governance bodies have been much more focused on reporting on financial implications of their activity. This is understandable as that has been for many the only mandatory requirement. It is incumbent that any governing body is clear on what the entity is seeking to do and how they are seeking to achieve it. Then as a logical flow-on; governing body members should be concerned with answering the question; how do they know if they are achieving their aims? I believe there needs to be more focus on this from governing bodies. This may require more and continued education. The XRB may wish to consider who are the other members of the governance education supply chain to assist in this area eg IOD, CAANZ, CPA etc
  
6. **The wrong people have been given responsibility** – Closely related to the failure of governance issue above is the fact that in most cases the responsibility for service measurement and reporting has been delegated to the accountant. Often by default. Good service measurement and reporting requires understanding from the top (governing body), then coordinated involvement of many parts of an organisation such as front line operations, communication, accounting etc.
  
7. **Link to broader organisational sustainability** – Service performance measurement and reporting helps force an organisation to think more holistically about its impact (which is why I believe this is first and foremost a governance issue). This has direct

links to organisational sustainability. I would suggest that most organisations sadly are still only looking at this as compliance and hence missing the considerable benefits for organisational sustainability.

8. **Sometimes its hard** - service performance reporting may be considered more difficult for some types of organisations due to the nature of the issues they are seeking to address and factors such as measurement ability, attribution etc. However just because something is difficult does not mean it should not be done. If an entity exists to address an issue, then it is incumbent on the entity's governance and management teams to be able to assess whether it is being effective in the application of the entity's resources towards that aim. Arguably the harder it is, the more effort governance and the broader entity should be putting into determining appropriate measures. Service Performance reporting is a practical way to be able to help assess, focus, and report such activity. The principle/approach in the standard of allowing flexibility for reporting entities in how they report is, in my view, totally appropriate to accommodate the many different structures and strategies that different charities have in addressing the issue. Hence, I remain strongly supportive of the principles-based standards approach to reporting due to the diversity of charitable entities, their charitable purposes and intent, as well as diversity of theories of change employed by different organisations in delivering on their purpose.
  
9. **Some terms in the standard are tricky** - I appreciate that "appropriate and meaningful" measures to be reporting on are subjective and will be a matter of opinion. However as long as that opinion is justified by adequate disclosure, then this should assist readers of the performance report. Further guidance as suggested in this area may be of assistance.
  
10. **Auditor power imbalance** - Auditors hold a significant, and potentially disproportionate, amount of influence over the reporting of service performance information. They hold the ability to help improve, or to kill this positive reporting initiative and consign it to being seen as just a frustrating mandatory compliance exercise. If it is the latter, entities will eventually respond with the bare minimum 'allowable' reporting just to achieve a 'pass mark' at the least cost impost. This completely undermines the point of the reporting.  
This is due to a number of factors:
  - a. Financial auditors are used to assuring financial information based on long standing financial standards which are generally very specific as to application rules. The information being assured is also generally an output of long standing and stable financial reporting systems. i.e. they are used to reliable known systems producing financial information that can be counted.
  - b. Auditors are heavily regulated and audited. They also in NZ carry a disproportionate amount of liability for their role compared to preparers. As such they are generally thorough in their application of standards and risk adverse. Their strictness in this regard puts them into situations of direct conflict with their charitable clients.

- c. There is a significant power imbalance in the charitable sector between auditors and their charitable clients. The charities are often less well resourced than the auditors in terms of financial reporting ability and in being up to date with reporting changes. Added to this audit is seen as extremely important by charities as they fear adverse reaction from funders should their auditors be critical of them. Therefore, many charities totally defer to their auditors as to what they should do. They rely on auditors as the test of what they have to do and what is allowable.
- d. This is a new area for auditors. Same (standards) book as the client yet 'they need to be one page ahead'. Learning a new area takes time. Albeit this is really just auditing 101; proving the reasonableness of information being reported by assessing systems and controls in place etc.
- e. Focus on assuring things easy to count. As this is a new area and appreciating that some auditors are still in early stages of learning, there has arguably been a focus from some auditors directing their charitable clients towards reporting items easy to be counted and verified. If this is done for self-interest then this is clearly inappropriate. It also will not assist the development of more innovative and valuable service performance reporting.
- f. The audit business model is under significant cost and capacity pressure in NZ at present. It is arguable that many auditors have not been charging their charitable clients sufficiently for their work for many years. This results in charitable clients becoming used to these cost levels. The implication is any cost changes then being seen as significant. It is suspected that some auditors may have used this new reporting requirement as a means of revising/rebalancing their overall audit costs/fees. It is also arguable that some auditors may have sought to recover the training costs for their team of this new area of assurance in their fees. This has resulted in adverse reactions towards auditors and the cost of Service Performance reporting and assurance and a disproportionate focus on this compared to the positives. Easy to understand in an environment with resource stressed entities on both sides of the equation.
- g. There is an underlying negative perception to auditors by many entities, either consciously or subconsciously. They are seen by many as a frustrating, expensive (whether they are or not), and overly critical compliance impost on an entity. i.e. a grudge purchase. The new requirement for the audit of service performance information and it being carried out in a thorough way in an immature environment has reinforced that perception for many. As a result, the audit – client relationship is in many cases combative rather than collaborative.

**Legislation modification/exemption consideration:**

I appreciate this is outside of the XRB's mandate but raise this issue for consideration. I have now talked to a number of philanthropic entities i.e. entities that exist solely to

fund other charitable entities to support them achieving their charitable purposes, that are themselves charities and hence subject to charitable reporting legislation.

As regards these entities, I am concerned that the cost/benefit principle of them reporting service performance is not being met. i.e. the cost is outweighing any significant benefit. This is because the end charitable providers they fund are already reporting their service performance. The funders also struggle with attribution re the purposes/outcomes they are funding given nexus and proximity, as well as exclusivity as they may be one of many funders. The preparation burden on them, especially those philanthropic funders that run extremely lean admin teams, as well as audit cost for them, especially if they are funding significant amounts and significant numbers of charities, can be significant. Yet from a policy perspective, while these entities are charitable, they are not seeking any public funds and hence it is arguable that the need for them to report service performance is greatly diminished.

Hence, as much as I am personally usually allergic to exemptions, I would be supportive of consideration being given to an exemption or carve out of SSP reporting and assurance for pure philanthropic funding organisations.

## Specific XRB Questions Responses

In addition to the above observations, I make the following observations in relation to your 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?**

Root cause analysis is well articulated.

It is important to remember how relatively early we are in the maturity and lifecycle of this new reporting innovation.

As noted above, in my opinion, all roads lead to governance failure. The governing body are the kaitiaki of an organisation's purpose. As such they should be clear on their theory of change and then measures to assure themselves that they are succeeding. In my experience, organisations that are clear on this have no problem with SSP reporting.

In many cases the benefits, importance, and ownership of service performance measurement and reporting is not yet held by governing bodies.

**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?**

Yes I believe clarifications may be helpful. I don't see any significant cost impost from this.

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

Agree with all.

**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?**

Agree conceptually, albeit the devil is in the detail I suspect. Needs to be clear and easily accessible if it is to be read and useful.

**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 requires governance education. I suggest possibly harder in the non Public Sector entities as Public Sector has had legislative requirements etc via requirements for long term planning processes etc.
- **Linking reported activities within the confines of an annual reporting period:** I note there is a worldwide trend to more holistic reporting with innovation in taking a more holistic view of entity sustainability and impact. Accordingly there would need to be guidance on how an annual reporting period activity ties into the longer term story. Again; this is fundamentally a governance issue as the governing body set the strategy as well as are the kaitiaki of purpose.
- **Selecting appropriate measures and considering contractual funding agreements:** I'm more a fan of "Selecting an appropriate and meaningful mix of measures and/or descriptions". There is a danger that "considering contractual funding agreements" is seen as the point when in my opinion that is just one factor to be taken into consideration.

### 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?**

Yes. This sector generally responds well to educative forums. Any seminars hosted must be captured for subsequent on demand viewing to appropriate leverage the effort and attain maximum long term reach.

As noted previously, efforts need to be made to reach the governing bodies and not just the annual report preparers. This is a holistic issue and requires holistic organisational input to be done well.

### 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?**

Agree.

Risk assessment and materiality is an issue. My sense is that sometimes auditors are being too thorough and risk adverse. I appreciate the sensitivity of this topic.

Auditors hold the power to help the sector with valuable reporting innovation or to kill this area dead.

- 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?**

Agree.

As also exists in other parts of the financial standard setting universe there is a potential mismatch between specificity in audit standards being greater than that in the reporting standards. This situation always results in inequitable responsibility, liability and leading to auditor vs client tension.



**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?**

More education is needed here. One of the significant potential benefits of good quality service performance information is funders not needing other bespoke information from entities. This would save significant cost and resources in the system for all. However at present I would suggest that benefit is not being widely realised mainly due to a lack of awareness and understanding. Government departments and funders are some of the worse culprits in this space. The net result is considerable resource and funding often goes into bespoke applications and reporting compared to addressing what issue the funding is actually provided for.

In my experience great reporting engenders strong stakeholder support.

Well done on grappling with this issue. It is worth it. It is important for a better Aotearoa New Zealand.

I am, as always, happy to assist with any clarifications on my comments, or in any other way I can assist.

Ngā mihi

*Craig Fisher*

Kea New Zealand Limited

[craig@kea-nz.co.nz](mailto:craig@kea-nz.co.nz)

## Nimash Bhikha

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**From:** Cherrie Yang <C.Yang1@massey.ac.nz>  
**Sent:** Wednesday, 27 August 2025 3:12 pm  
**To:** XRB Accounting Standards  
**Subject:** Submission on XRB Consultation- Reporting and Assurance of Service Performance Information  
**Attachments:** 2025 Industry Report\_Service Performance Reporting and Assurance.pdf; Xu and Yang (2023) Service performance assurance for small charities.pdf

Kia ora Wendy

As a researcher in nonprofit accounting and reporting, I am making a general submission to the current consultation. I also had the opportunity to attend the XRB session on 18 August and shared some feedback there.

Over the past two years, Dr Gina Xu (BDO) and I have conducted a research project examining the practice and perception of service performance reporting and assurance. Our study analysed 120 reports from Tier 1 and Tier 2 charities and interviewed 34 charity preparers and auditors. Given the direct relevance of this work to the consultation, I am pleased to share our industry report (attached). I hope the findings will be of value to the XRB as you consider potential changes to the standards.

We have undertaken another research with Tier 3 charities subject to audit and review. I have attached a published paper.

Moreover, I would like to commend the XRB for being a 'listening' standard-setter, engaging with the sector, and responding to its evolving needs. Please let me know if anything else I could help with or if you have specific questions you'd like to discuss further.

Ngā mihi nui,

Cherrie

### Cherrie Yang, PhD, CA

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# Charity Service Performance Reporting and Auditing: Benefits, Challenges and the Way Forward

## Authors:

Dr. Gina Xu, BDO New Zealand

Dr. Cherrie Yang, Massey University

## Executive Summary

Since 2022, Tier 1 and Tier 2 charities in New Zealand have been required to report their service performance information, and since 2023, this information has also been subject to audit. This represents an internationally unprecedented development, prompting this research to provide early insights into the practice of mandatory service performance reporting and auditing. Drawing on the perspectives of both auditors and charities, this research explores its benefits and challenges and identifies opportunities for improvement.

Through analysing 120 Tier 1 and 2 charities' Statements of Service Performance (SSP) and interviewing 34 participants, including both charity preparers and auditors, our key findings are summarised as follows:

- The majority of charities submitted their statutory reports on time and received an unmodified audit opinion on SSP. The auditing process has strengthened the rigour and credibility of service performance reporting and has encouraged many charities to develop more systematic processes for capturing verifiable performance information. The auditing process enhances the legitimacy of the reporting entities.
- The first year of auditing SSP has presented a steep learning curve for both charities and their auditors. The findings indicate an understanding gap between auditors and charities regarding what constitutes acceptable audit evidence for performance measures. Auditors' demands for evidence are generally more stringent than charities expected, resulting in a tension around the auditability of certain aspects of SSP. It has taken considerable discussions, negotiations, and sometimes frustrations and compromises for both parties to reach a shared understanding of what service performance auditing looks like in practice. While this process could be challenging, it helps to lay the foundation for improving the audit process in future years.
- The SSP was generally summarised in one to two pages and predominantly disclosed quantitative performance measures. Few charities included qualitative measures. This is likely influenced by the auditing practice, which is more accustomed to auditing quantitative over qualitative measures. Concerns were raised about the subjectivity and attribution in reporting performance measures relating to the fulfilment of charities' overall missions, and the costs and

reluctance associated with auditing those measures. Some charities have responded by shifting that content from SSPs to other places, such as annual reports and websites, which fall outside the audit scope.

- While most charities recognise the importance of telling their stories, many charities did not perceive any substantive benefit in reporting and auditing SSP and saw it as a compliance exercise. Some interviewees questioned whether the benefits outweighed the costs, particularly given the perceived limited effect on attracting funding. Benefits may not be fully recognised until the practice becomes mature.

Based on these findings, which are discussed in detail in the following sections, we provide the following recommendations:

- The design and development of appropriate and meaningful performance measures requires entity-wide collaboration and effort, including governance, management and operational staff. Where appropriate, engagement with external stakeholders such as funders and beneficiaries can be beneficial in selecting performance measures. To implement systems and processes for recording verifiable performance measures, operational staff and volunteers should be trained and supported to consistently apply those processes and controls. While this could be an expensive exercise, once set up successfully, the preparation of SSP could be incorporated into regular internal reporting practices, which would enable regular monitoring and feedback to charities.
- To support the development of verifiable and meaningful performance measures, funders could consider providing targeted, one-off grants to assist with system development, internal control design, and data collection processes for service performance reporting, in addition to routine funding. Funders could also consider using an audited SSP to inform funding decisions.
- Auditors should upskill in assessing qualitative measures and remain open-minded and receptive to the underlying logic and intention behind these measures, rather than placing undue emphasis on quantitative measures. They can also act as a ‘sounding board’ in charities’ reporting journeys, offering suggestions without creating self-review threats. Accounting firms may consider investing in training and resources to help auditors assess various forms of evidence and evaluate the appropriateness and meaningfulness of performance measures that align with a charity’s specific context, mission, and activities.
- Given the diversity of charitable work and the challenges involved in developing appropriate and meaningful performance measures, professional accounting bodies could support the sector by providing practical guidelines and examples of performance measures tailored to different types of charities, such as health, education and social services. This would help articulate disclosure expectations and enhance comparability within the sector or service area.

## Service Performance Reporting and Assurance Requirements

Charities in New Zealand are categorised as Public Benefit Entities and are required to report both service performance and financial information in their General Purpose Financial Statements (GPFS). Larger charities in Tier 1 and 2 must follow *PBE FRS 48 Service Performance Reporting*, which has required the disclosure of service performance information since 2022<sup>1</sup>. In the SSP, charities must explain what they have done during the reporting period in working towards their charitable purposes and objectives. Charities are required to select appropriate and meaningful performance measures and/or descriptions to illustrate their service performance in significant areas. Additionally, charities must provide supporting contextual information to explain why they exist, what they intend to achieve in broad terms over the medium to long term, and how they go about it. The disclosure of this information aims to improve accountability and support report users in making informed decisions. These users are primarily categorised as resource providers and service recipients and their representatives.

To improve the credibility of service performance information, Tier 1 and 2 and some Tier 3 charities are subject to mandatory audits by professional accountants who follow *NZ AS 1, The Audit of Service Performance Information*, effective from 2023 (with the revised standard taking effect in 2024).

Internationally, it is unprecedented for charities to be subject to mandatory service performance reporting and assurance, which positions New Zealand as a pioneer in this area. The NZ experience should be better understood to inform future developments and standard settings in other jurisdictions. Although the study primarily focuses on Tier 1 and 2 charities, some findings may also be relevant to Tier 3 charities.

## Research Aim and Methods

This research examines the benefits and challenges of service performance reporting and auditing in the New Zealand charity sector. We employed two research methods: content analysis and semi-structured interviews. For the content analysis, we used random sampling to select first-year statutory performance reports subject to mandatory auditing from 120 charities listed on the Charities Services' Register. The sample includes 30 Tier 1 charities and 90 Tier 2 charities to ensure representation across tiers. The 120 SSPs were analysed in June 2024. In addition, we analysed the SSPs of 14 charities that participated in interviews.

We interviewed 34 participants selected for their extensive involvement in service performance reporting or auditing. Most charity participants were from Tier 1 and 2, with the exception of two from Tier 3. These participants generally held senior

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<sup>1</sup> Tier 3 and 4 charities in New Zealand started disclosing their SSPs in 2015, in accordance with the reporting standards applicable to their respective tiers. Tier 3 charities with annual expenditure exceeding \$1.1 million are subject to a mandatory audit of their performance report.

positions, such as CEOs, CFOs, or positions responsible for service evaluation and delivery. Auditor participants included partners, managers, and technical team members from a range of accounting firms. We also interviewed three stakeholders who advocate for service performance reporting. The diverse group of interviewees provided broad insights into both the regulatory and practical dimensions of service performance reporting and auditing. The interviews, conducted between late 2022 and October 2024, averaged 60 minutes in duration and included 17 female and 17 male participants. Discussions with charity preparers focused on their experiences in preparing service performance reporting and working with auditors through the auditing process. Interviews with auditors focused on their experiences and challenges in auditing service performance information.

We developed coding criteria for the analysis of service performance reporting, drawing on the requirements of PBE FRS 48 and insights from international academic literature on performance reporting in charities and the broader nonprofit sector. A description of selected criteria is provided in Appendix 1.

## Research Findings

The research findings are presented in two parts: first, the results from the content analysis of 120 charities, followed by insights from interviews. The content analysis highlights the audit opinion issued and key aspects of the reported service performance information. Where relevant, these findings are further discussed and contextualised through the interview data presented in the subsequent section.

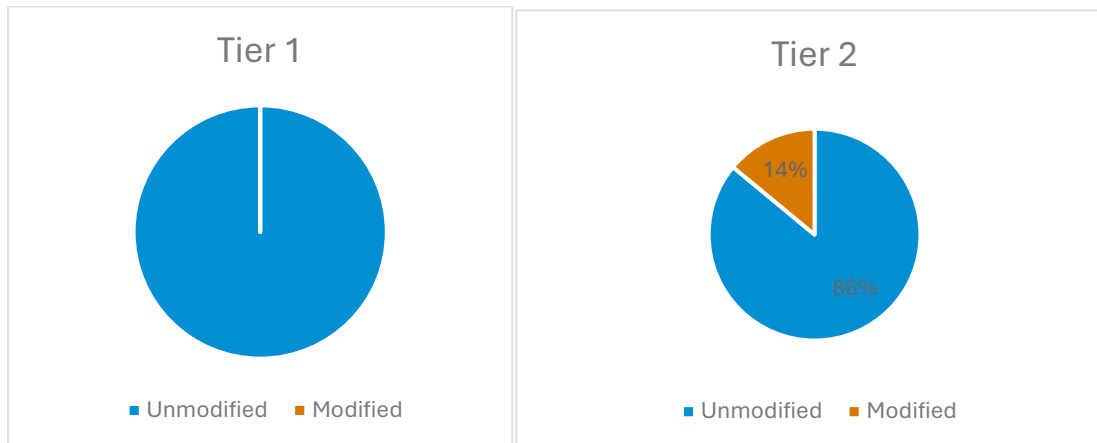
Table shows a breakdown of the 120 sampled charities. At the time of analysis in June 2024, three charities had not filed their General Purpose Financial Reports, two with a June 2023 balance date and one with a March 2023 balance date. Five charities submitted reports that did not include an SSP, and six reports were missing an Audit Report. One charity's SSP was excluded from its auditing scope.

*Table 1 - Breakdown of the 120 charity samples*

	Tier 1		Tier 2		Total
Complete Performance Report	24	80%	81	90%	105
No filing	1	3%	2	2%	3
No SSP	1	3%	4	4%	5
No Audit Report	3	10%	3	3%	6
SSP Not Audited	1	3%	0	-	1
<b>Total</b>	<b>30</b>		<b>90</b>		<b>120</b>

## Types of Audit Opinion

We excluded charities with no filing and no audit report when analysing the types of audit opinions. All Tier 1 charities (n=26) received an unmodified audit opinion during the first mandatory audit, including SSP<sup>2</sup>. Twelve or 14% of Tier 2 charities (n=85) received a modified audit opinion. Three of the modified opinions were related to service performance, while the remaining were related to qualifications in financial information. The qualifications related to service performance were due to a lack of evidence.



*Figure 1 - Types of Audit Opinion*

## The Disclosure and Presentation of SSPs

This section discusses the information disclosed in the SSPs. As shown in Table 1, charities with no filing and no SSP were excluded from the analysis; therefore, SSPs from 28 Tier 1 charities and 84 Tier 2 charities were analysed, a total of 112 charities. Our analysis focused on five key aspects of the information disclosed: 1) the length and placement of SSP, 2) the nature of performance measures, particularly the dominance of quantitative measures, 3) the use and explanation of comparatives and disclosure of unfavourable performance, 4) verifiability of reported information, and 5) links of SSPs to financial information. Each of these areas is discussed in the following subsections, supported by examples.

### *1. Length of SSP and Placement in the Annual Report)*

Among the sampled charities, 56% (n=63) presented SSPs that were less than two pages in length, with the most common length being a single page (n=36) (see Figure 2). On average, Tier 1 charities produced SSPs of 4.82 pages, while Tier 2 charities averaged 3.12 pages. All charities disclosed their purposes and descriptions of what they did during the reporting year. Notably, many adopted a tabulated format originally designed for Tier 3 and 4 charities. While shorter SSPs may enhance readability, they risk providing a less meaningful picture of a charity's service

<sup>2</sup> We included the charity that SSP was not audited while acknowledging the possibility that the SSP may not have received an unmodified opinion, had it been audited.

performance and may reflect the under-preparedness or compliance-driven mindset of some charities. These issues are further discussed in the interview findings.

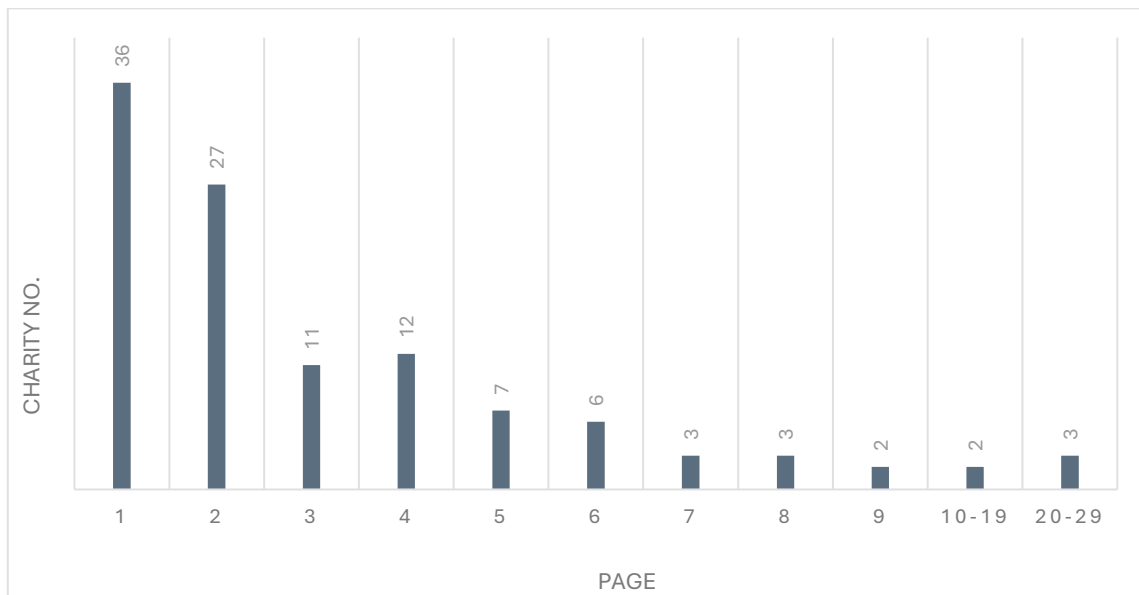
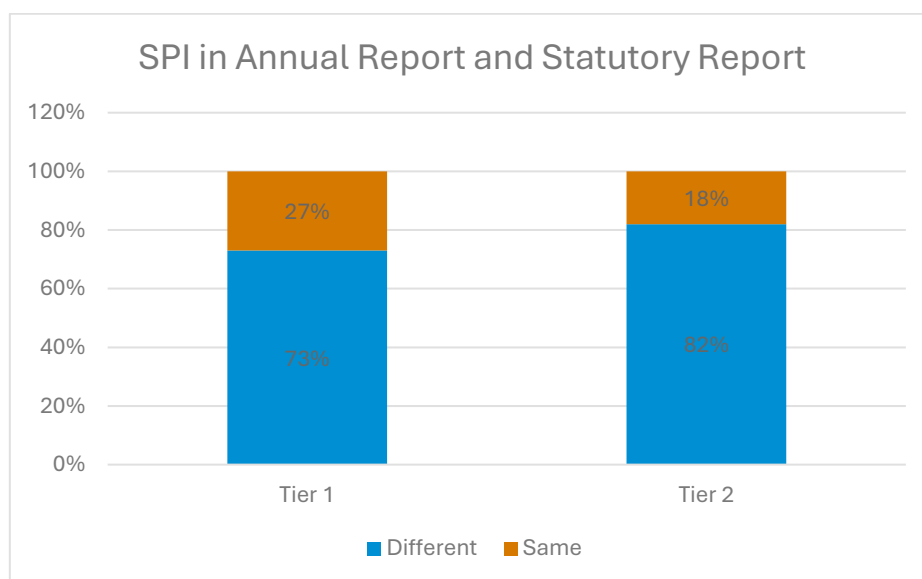


Figure 2 - Length of SSP

Although SSPs in the statutory report are typically brief, many charities choose to provide more comprehensive SPI in their annual reports, which are publicly available on their websites. Within our samples, 78 charities had annual reports accessible online, but only 16 charities (6 Tier 1 and 10 Tier 2 charities) included their statutory SSPs in those reports. As shown in Figure 3, 73% of Tier 1 and 82% of Tier 2 charities presented SPI in a different format in their annual reports. These disclosures featured detailed descriptions of services or programmes, organisation values and strategies, and beneficiaries’ testimonials and stories. This may indicate that charities place greater emphasis on detailed narrative-style reporting through other mechanisms like annual reports rather than within the statutory SSP.





### Figure 3 - SPI in Annual Report and Statutory Report

#### 2. The nature of performance measures - dominance of quantitative over qualitative

Performance measures in service performance reporting were predominantly quantitative and focused mainly on outputs, as shown in Figure 4. In our sample, all Tier 1 charities and 98% of Tier 2 charities disclosed outputs related to their main operations, such as the number of participants or consultations provided. In contrast, outcomes were reported considerably less, with 36% of Tier 1 charities (n=10) and 32% of Tier 2 (n=27) including outcome-related disclosures. While both outputs and outcomes address what a charity did and its achievements during the financial period, outputs refer to the immediate or direct goods or services delivered, whereas outcomes relate to the medium to longer-term effects on individuals or society. The low rate of outcome reporting may suggest that many charities focus on service delivery activities and have limited outcome measures which capture the fulfilment of their missions.

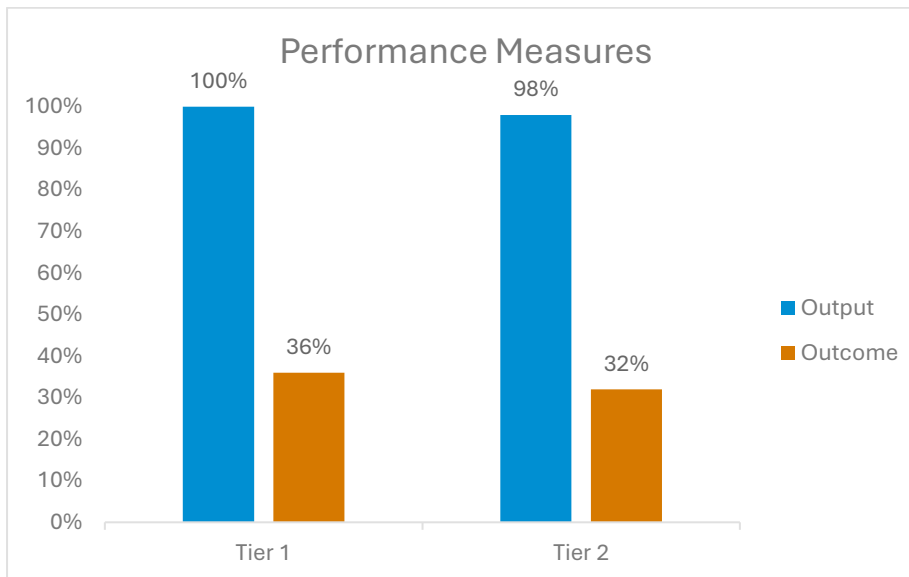
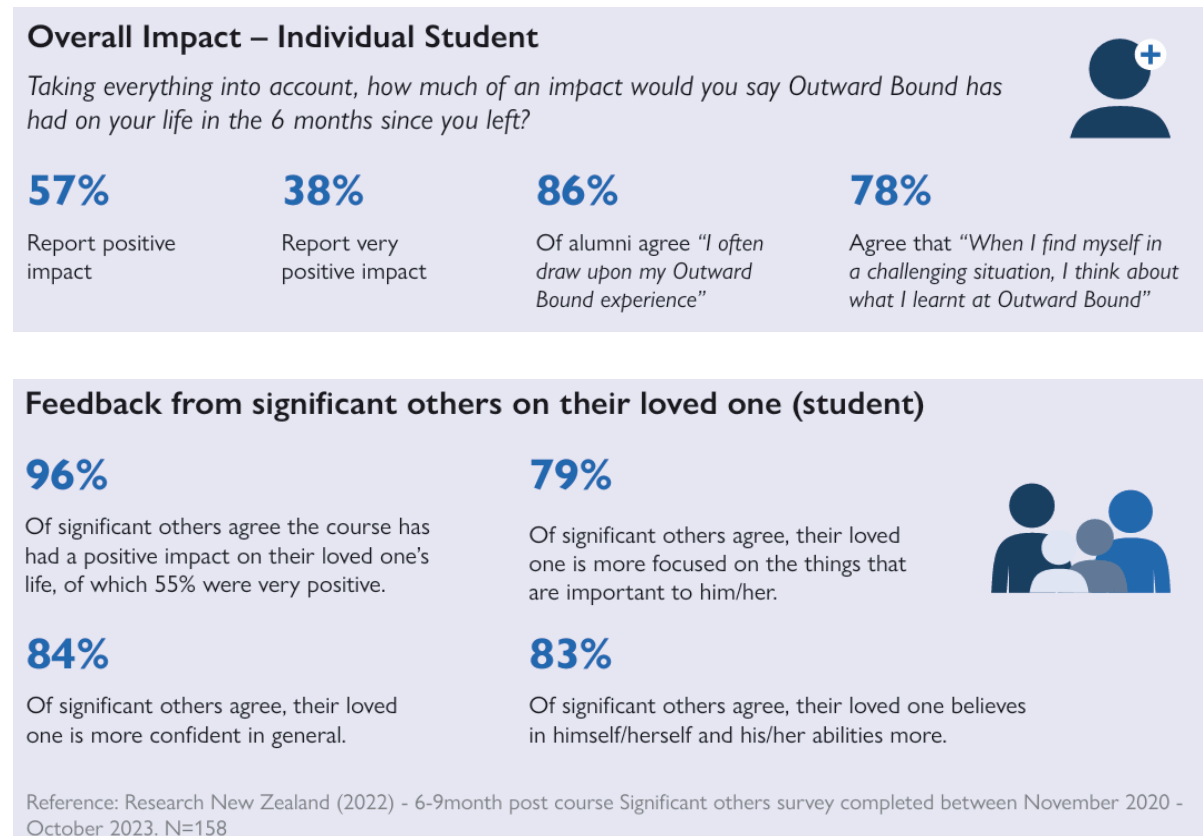


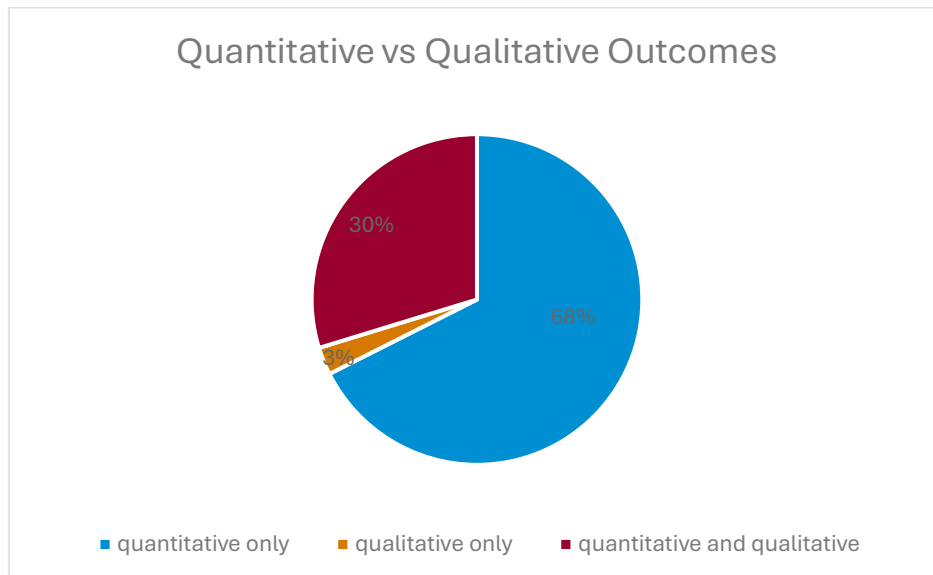
Figure 4 - Disclosed Outputs and Outcomes

A good example of outcomes is Outward Bound Trust, which runs multi-day challenging expeditions outdoors. The charity conducts a post-course evaluation to understand the long-term impact of their outdoor education programmes, which is completed by both the participants and their significant others.



*Figure 5 - An Example of Outcomes*

While outputs are typically quantitative, outcomes can be presented in both quantitative and qualitative forms. Among the 37 charities that disclosed outcomes (see Figure 6), 68% (n=25) disclosed quantitative outcomes only, such as patients/visitors or participants' satisfaction, increased awareness or immunisation rates, academic achievements (e.g. passing NCEA results), and results from participating in sports or art events. Notably, 30% (n=11) disclosed both quantitative and qualitative outcomes, including beneficiary feedback and testimonials, successful certification audits, and staff achievements. Only one charity (3%) disclosed qualitative outcomes only, describing how funding was allocated across different strategic areas.



*Figure 6 - Quantitative and Qualitative Outcomes*

Individual stories were largely absent from SSPs, with only one charity including such a narrative, although they were more commonly featured in charities' annual reports. The example in Figure 7 shows the difference the charity made by fulfilling an ill child's wish. Interview data revealed that charities were cautious about claiming outcomes, particularly those with a long-term effect. The auditing process was perceived to favour quantitative output measures and discourage outcome-related disclosures; this issue will be further discussed in the interview findings.

## "One million. No, more than that: 100 million!"

This is how excited six-year-old Jonty was for his wish. Jonty was only 10 weeks old when he was diagnosed with bone cancer.

He's had a lifelong fascination with stars, rockets, and outer space. He even has a star named after him. Jonty's wish was to fly in a rocket with his family.

With their NASA spacesuits on, Jonty and his family were greeted by stormtroopers before they were flown 27,000 feet in the air on a private jet dressed up as a rocket ship. Jonty screamed with joy when he saw his star.



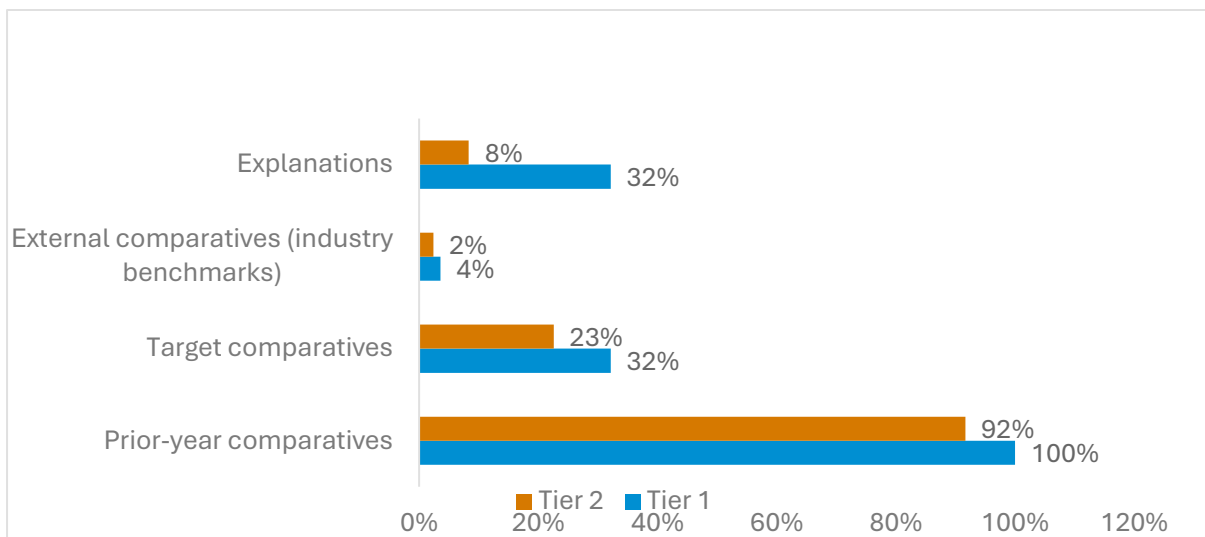
"He was blown away. It was everything he had dreamed it was going to be. A once-in-a-lifetime experience," says mum Kerri.

[www.makeawish.org.nz](http://www.makeawish.org.nz)

**Figure 7 - An Example of an Individual Story in SSP**

**3. The comparatives and neutrality of information**

FRS 48 paragraph 37 requires disclosing comparatives of the preceding period but allows judgment on whether to provide comparative narratives and descriptions. As shown in Figure 8, prior-year comparatives were the most commonly used (100% of Tier 1, 92% of Tier 2 charities). Target comparatives were less frequently included (32% for Tier 1, 23% for Tier 2), while external benchmarks were rarely used (4% for Tier 1, 2% for Tier 2). Figure 9 illustrates an example from a college that compared its outcomes against those of all decile 10 schools as a benchmark. However, no explanation was provided for the changes across years, particularly for a significant increase in merit endorsement from 20.5% in 2022 to 36.8% in 2023. A lack of explanations for comparatives was identified across the sample, with 32% of Tier 1 charities (n=9) and only 8% of Tier 2 charities (n=7) providing an explanation. In many cases, the explanations merely described changes in numbers without specifying the reasons behind the changes.



**Figure 8 - Comparatives**

**NCEA Results**

Merit and Excellence endorsements for Christ’s College students compared with all decile 10 schools.

Merit Endorsement (%)				
	FY2023	FY2022	FY2023	FY2022
	Level 2	Level 2	Level 3	Level 3
Christ's College	34.8	36.1	36.8	20.5
All decile 10 schools	35.8	30.1	30.1	28.2

Excellence Endorsement (%)				
	FY2023	FY2022	FY2023	FY2022
	Level 2	Level 2	Level 3	Level 3
Christ's College	30.3	36.1	21.6	24.1
All decile 10 schools	23.6	21.1	16.5	17.0

### Figure 9 - Example of industry benchmark

PBE FRS 48 also requires service performance information to be neutral, capturing both favourable and unfavourable aspects of a charity's performance in an unbiased manner. However, only around 20% of charities in both tiers disclosed unfavourable performance aspects. The example in **Error! Reference source not found.** provides a clear explanation of such a disclosure. The charity reported performance below the target set by its funder due to longer calls, high call volumes and staff shortages.

#### Measuring Our Service Performance - PlunketLine

##### Performance Overview

In FY23, PlunketLine performed below our contracted target levels for both performance measures. This was largely due to experiencing higher call volumes on our Healthline service, coupled with high staff vacancy rates and staff sickness during the year.

Furthermore, calls are becoming increasingly more complex and therefore taking longer. We are seeing this come through in our talk time data, with calls taking on average 25 seconds longer per call for our WellChild calls in FY23 compared to FY22.

##### 2. Call abandonment rate

###### What does the measure mean?

The call abandonment rate measures the percentage of incoming calls where the caller hangs up before their call is answered by PlunketLine staff. A large spike in total calls or increase in complexity (leading to increase in talk time) may impact the abandonment rate. Under our contract with Te Whatu Ora, we have a call abandonment target of 10% or less.

###### Our Performance Results

Measure Description	Result 2023	Target 2023	Result 2022
% of calls abandoned	13%	< 10%	17%

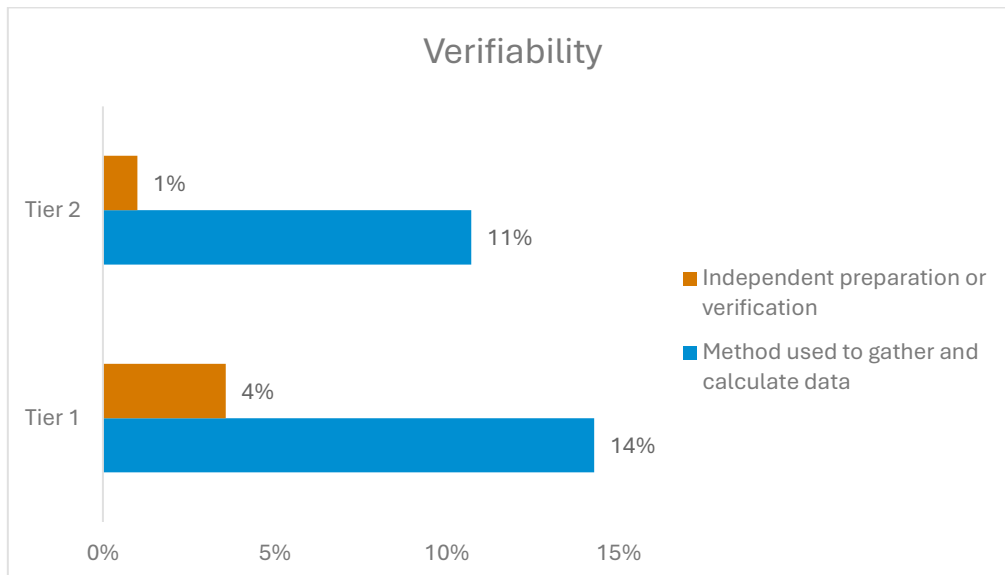
###### Commentary

All 2023 results are within 5% of Target for 2023 and prior year results. We remain broadly on track to achieve our goal of equitable service delivery by 2025.

### Figure 10 - Example of neutrality

#### 4. Verifiability of reported information

PBE FRS 48 requires service performance information to be verifiable. A few charities engaged external parties for independent preparation of service performance information (4% of Tier 1 and 1% of Tier 2 charities). These external parties included research companies and online evaluation tools, and their involvement is likely to increase the reliability of the reported survey results. A further 14% of Tier 1 and 11% of Tier 2 charities disclosed their data collection methods. Figure 12 presents an example of a charity that utilised an online survey tool to capture and assess audience experience. The explanation outlines when and how the survey was sent and the survey design, which improves the transparency and reliability of the survey results reported.



*Figure 11 - Verifiability*

- Auckland Theatre Company uses [Culture Counts](#) to evaluate the experience and opinions of our audiences as well as the artists, young people, and organisations we work with. Culture Counts is purpose-designed to measure the impacts and outcomes of the cultural sector, and is used by arts organisations across the globe. Culture Counts invites people to respond to statements linked to dimensions such as quality using a slider, rather than 5-point scale, allowing a finer gradation of opinion. The tool translates the results to a number between 0 and 1, and then averages the entire respondent dataset to establish the percentage of agreement. The higher the percentage, the greater the number and strength of respondents' agreement. The measures selected have been used by the Company since 2017 to measure the quality and the impact of our work.

Auckland Theatre Company emails all ticket purchasers a survey link, inviting people to complete the survey and share the link with those they attended with. Audiences can also access the survey via a QR code included in the free programme and displayed around the theatre Venue.

For our participants, practitioners and partners we email a survey link at the conclusion of their programme of engagement or participation.

*Figure 12 - Example of the method used to gather data*

### 5. Links to financial information

As the SSP is integrated within a GPFR alongside financial information, we examined the extent to which service performance information is linked to financial statements. PBE FRS 48 suggests that service performance information is cross-referenced to financial statements to reflect the costs of delivering service performance. We found that 54% of Tier 1 and 37% of Tier 2 charities presented some links between their service performance and financial information. However, the links were often inconsistent or ambiguous. Figure 13 shows an example where service performance data is clearly linked to financial information, though discrepancies remain. Particularly, revenue generated by admissions in the SSP is reported as \$1,375,295 but appears as \$1,598,397 in the financial statements. The grant of \$135,096 received from the Ministry of Education is consistently reported across both statements.

### Objective 1 – Maximise the Visitor Experience

MOTAT's visitation for the year was 232,144, which generated Exchange Revenue of \$1,375,295. This compared to the previous year's 100,554 visitors, which generated \$763,425. This revenue is included under 'Gate and Tram Admissions' in Note 3 'Exchange Revenue'. The previous year's visitation was impacted by COVID lockdowns in Auckland.

Pursuant to MOTAT's contract with the Ministry of Education, MOTAT received \$135,096 towards the cost of providing LEOTC/Enriching Local Curriculum and ECE programmes to 24,544 students compared to the previous year where MOTAT received \$135,099 for 15,887 students. This contribution is included in Note 2 'Non Exchange Revenue' as 'Ministry of Education Grant'.

### 3. Exchange revenue

	2023	2022
Gate and Tram Admission	1,598,397	981,869
Hirage, Events and Functions	76,893	12,777
Other income	359,644	403,666
Shop Sales	210,743	53,793
<b>Total Exchange Revenue</b>	<b>2,245,678</b>	<b>1,452,105</b>

### 2. Non exchange revenue

	2023	2022
<b>Grants</b>		
Donated Collection Assets	220,000	376,645
Ministry of Education Grant	135,096	135,099
Waitemata Local Board - Cycleway	-	379,829
New Zealand Lottery Board	-	29,209
Tātaki Auckland Unlimited		
Void Fill	445,103	-
Tram Track replacement	354,897	-
Cycleway	-	30,000
Community Week	-	30,000
Local Activation	-	11,500
Panuku Development	-	39,000
Other Donations & Grants	18,661	6,696
RFA Loan Forgiveness	-	105,949
Government Subsidies and Grants	-	1,306,086
<b>Total Grants and Donations</b>	<b>1,174,757</b>	<b>2,450,013</b>

Figure 13 - Example of links to financial information

## Key Challenges for Service Performance Reporting and Auditing

Given the unprecedented nature of mandatory auditing of non-financial information, the first-year audit of SSP created a considerable amount of pressure and stress for both auditors and charities. Both parties experienced a steep learning curve. Although charities were aware of the upcoming SSP audit requirement at least two years in advance, many auditors observed that their clients were underprepared and left the SSP until the last minute. On the other hand, charities were often surprised and at times frustrated by the extent of evidence required by auditors. As such, the first-year SSP audits became a negotiated process between the auditor and charities, particularly around what constitutes appropriate and meaningful performance measures that can be verifiable. The quote below indicates auditors' significant influence in shaping SSP content.

I would say this, there was almost no one that had prepared an adequate starting point in my portfolio. The ones that did [prepare a SSP], when it came to audit, [we] ended up rewriting the whole thing anyway, because it was way too much detail or it wasn't auditable, or it wasn't at the right level of aggregation. So it wasn't reporting on the really important things to them. (A32, Auditor)

The key challenges in reporting and auditing SSP, auditability, a preference for quantitative performance measures, and perceived cost versus benefits will be discussed below.

### *1. Auditability - What is considered appropriate and sufficient audit evidence?*

All interviewed charities had some prior experience in preparing service performance information, typically for funders or internal purposes. However, presenting this information in a statutory report subject to audit was still considered challenging. While many charities already had processes in place to collect performance information, their understanding of what constitutes acceptable audit evidence often differed from auditors' expectations. For example, the charity quoted below had been preparing SSPs for years in accordance with funder requirements, yet still found the first-year audit process unexpectedly difficult due to the level of audit evidence required:

We had a very, very heavy audit last year on our non-financial performance and it caught us a little bit by surprise. .... We just weren't aware of the degree of evidence that our auditors would be requiring. Our auditor found it incredibly difficult, and we found it incredibly difficult to actually give them the evidence that they required. Look, to be honest, we did think that some of the evidence that they were requiring was a bit over the top and probably nonsensical. (C34, T2 charity)

One of the difficulties in providing sufficient audit evidence was due to the nature of charitable service delivery. Many services are provided free of charge, leaving little or no monetary trail. As a result, evidence for performance measures is largely



internally generated, which can reduce its perceived reliability from an auditing perspective. While the reliability of this information could be strengthened through internal controls, these controls and processes were not always consistently carried out across the charity. In some cases, the lack of controls has prevented charities from including certain performance measures in their SSPs. As one Tier 2 charity explained:

We have this thing called [the name of the service], which was a free event. And it relied on someone at the door counting people as they came in. And sometimes it would just be forgotten. (C23, T2 charity)

Charities' perception of what constitutes sufficient internal controls often differs from that of auditors. Charities often report measures such as the number of visitors or the number of participants in their program. They may consider counting the number of participants and recording the total on a spreadsheet or a piece of paper to be sufficient, whereas auditors may question the accuracy and verifiability of the number. In the example below, the charity hosted free visits from schools. Staff manually counted the number of children attending, but the auditor required independent confirmation from the schools:

So we could provide the auditors with a booking confirmation to say school X is potentially going to bring 15 students, but we cannot guarantee that 15 students actually arrive for any number of reasons, illness, sickness couldn't be bothered, whatever. So how were we capturing those students? We had a manual sign in sheet. So once the students get off the bus, one of our team members does a bit of a poll right there. We were expecting 15 students, actually only 10 arrived and they were writing a physical 10 on the piece of paper and then that was going towards our visitor numbers. So we were using what we physically saw with our eyes, the number of students getting off the bus. We added that to our visitor numbers. Our auditors said that wasn't enough evidence. So we said, well, we don't know what else you want us to give. And they said, well, how do we know that the person standing on the bus miscounted and there were only nine students. And we said, well, we've actually got trust in staff that they are doing the right thing. (C34, T2 charity)

Charities operate out of altruism and place significant trust in their staff and volunteers; therefore, they often believe their staff are reliable in recording non-financial data. In contrast, auditors apply professional skepticism, requiring objective and verifiable evidence to support reported performance. This disconnection can create tension during the audit process, with some charities viewing auditors' demands as excessive while auditors struggle to obtain auditable, reliable evidence of reported information. The tension is exacerbated by auditors often having to engage with charity staff from diverse professional backgrounds who may have limited or no experience with dealing with auditing.

Often, we're talking to people who are not in the finance team, who don't necessarily have the same understanding of auditing as the finance team. ...There can be a really wide range of people and businesses e.g. [name of an entity], there's a conservation manager who's got a zoology degree or there's a legal or operations person. It might be a really broad range of people who are providing information that go into a whole lot of different and unique measures and they might not understand really what we're trying to get in terms of audit evidence. (A18, Auditor)

As auditors ventured into the non-financial performance of charities, they needed a more in-depth understanding of charity operations and to learn new systems and processes. Many of them had to engage with unfamiliar areas, such as how scientists count birds, how researchers analyse survey responses, and how cultural traditions affect service delivery. Other challenges include auditors dealing with highly confidential data, including patients and victims information, encountering IT management systems that do not align with financial reporting balance dates, and having difficulty establishing causal links between outputs and outcomes.

## *2. Preference for quantitative performance measures*

As discussed earlier, the content of SSPs was predominantly focused on quantitative output measures, whereas annual reports often contain more information on outcomes, both quantitative and qualitative. The auditing process appears to reinforce this preference for quantitative measures. This preference may reflect a combination of factors, including the relative ease of auditing quantitative data, auditors' inexperience in testing qualitative measures, and the inherent difficulties in measuring and verifying outcomes.

Auditors are accustomed to working with numerical data, and it is easier to apply materiality to quantitative outputs or outcomes. While some qualitative elements such as matching a charity's mission and strategies with founding or strategy documents are relatively straightforward to verify, other qualitative performance measures can be more complex and subjective. The following example illustrates this challenge: one charity sought to include results and themes from their annual survey, which they believed were meaningful measures of their impact, but their auditor was very reluctant to audit that information:

There had been a comment from their audit partner that qualitative data is very difficult to verify. And I had said: well, if you look at the standard, it can be both, so you need to help me to understand why you can't do this potentially. The partner came back said: well, most of the not-for-profits that we audit are trusts that are giving out grants so they don't have any qualitative data. So we haven't done it before. (C31, T2 charity)

Auditors tend to emphasise factual, objective data and often focus on short-term metrics like attendance numbers and service volumes. However, auditors demonstrated a range of attitudes towards outcomes. Some would not like outcomes unless there was a proven direct causation between a charity's outputs and

outcomes, others were more encouraging, recognising the complex nature of outcomes.

By contrast, some charities, particularly large ones, actively sought to demonstrate the long-term impact of their work, which was often collected through surveys or pre- and post-service/intervention assessments. However, they encountered challenges from auditors who questioned the reliability of qualitative measures and descriptions, claiming potential biases and incomplete datasets. This discouraged some charities from including qualitative or impact-related measures in their SSPs. The charity quoted below had invested significant resources into developing outcome-focused performance measures to reflect the difference they made in people's lives. However, their auditors held a different view:

When I first started looking at the [PBE FRS 48] standard, I thought this was about proving your impact or trying to quantify what difference you're making and write about it. But when the auditor got involved, to my surprise, they in effect swung it right back to *what have you done?* so we could have easily just written a Statement of Service Performance about how many people we helped with each of our services. They'd have been quite happy. It was us who was going, but hold on, we're trying to work out *what difference we're making*. So what's our transition rate? What's our prisoner reintegration rate? That's where we need to be focusing. What the standards seem to imply didn't seem to be what we could have got away with.... And not doing the outcomes is actually much easier. (C29, T1 charity)

The tension arose from different perspectives between charities and auditors. The charity in this case had started to explore a more complex question: '*what difference are we making?*', which relates to outcomes or impact measures. In contrast, auditors tend to focus on the question '*what have you done?*', emphasising short-term service deliveries. This emphasis frustrated the charity as they perceived quantitative data alone to be insufficient for demonstrating their performance.

Many charities share this view and express a desire to report on their outcomes, which is more meaningful and fulfilling. However, they also acknowledged inherent difficulties with measuring outcomes, such as respondent biases. In the example below, a charity used the Alcohol Drug Outcome Measure (ADOM), a sector-recognised tool, to assess the effectiveness of its alcohol and other drug addiction program. However, they excluded the measure from their SSP because they anticipated that the auditor would question its reliability and fear that could lead to a qualified audit opinion:

The outcome measures just become increasingly grey. Even like the ADOM thing, which is an industry wide standard form where you're contacting people and getting them to fill it out. There's a bias in it because if someone comes to an addiction programme and then they carry on drinking, they disappear. You can't contact them because you don't know where they are, so you can't do an

ADOM with them. But all of your best clients who have graduated and are happy and you're still in contact with they are the ones you can do the ADOM with. Our auditor is going, hold on, is that really an accurate number? So you start going, oh, let's just leave it out, because if we're not quite sure about that number then just leave it out. So that tends to be the approach with the SSP being audited. Last thing we want is a qualified audit because of some numbers on the SSP. (C29, T1 charity)

### 3. *Questioning whether benefits outweigh costs*

While all interviewees acknowledge the potential benefits of statutory service performance reporting and assurance, which will be discussed in the next section, their perceptions of its practical value varied considerably. Interviewees highlighted the increased costs associated with the practice, including increased audit fees, the time auditors spent on understanding the charity's operations, the charity's staff time and effort spent collecting and explaining evidence, and the opportunity costs that could be directed toward service delivery.

Some charities felt that service performance reporting and auditing might not enhance their ability to attract funding. Some believed the highly aggregated format of SSPs lacked depth and meaningful insights, limiting their value to external readers:

That means that we can continue to be in compliance with the charity sector and therefore allowed to operate, so we are reporting this so we can continue to be legally compliant. It's a nice to have, I would imagine the reader of these pages [the SSP] would spend probably no more than 3 minutes reading them and have no expectation as to whether that's good, bad or ugly. I honestly question whether you can actually attract more funding through this report. I think it's marginal at the best and probably even detrimental. (C25, Tier 1 charity)

...so who are we actually doing this for at the end of the day? If it doesn't necessarily increase people's confidence in donating to our organisation. So who is benefiting from it? If it is costing so much more and so....who's actually benefiting from it? Because if we're spending an extra 10 grand on audit as one example, that's \$10,000 that isn't going to direct service delivery. Might not seem like a lot, but we can do a lot with \$10,000. So yeah, that's a big question for me. (C31, T2 charity)

Some auditors also recognised the challenge of balancing the cost and benefit of mandatory service performance reporting and auditing. One auditor described it as a well-intentioned concept that is difficult to implement in practice, particularly given the resources involved:

It's a really hard thing to do for a lot of organisations. So it's a great idea conceptually, but it's hard, right. And therefore, the amount of effort [that went] into it and what is the benefit? You've got a charity who's using its money wisely, and they're spending a

lot of money on this and the auditor's charging a lot of money, is that a benefit? (A28)

Since this was the first year of mandatory service performance reporting and auditing, whether the benefits justify the costs remains an open question. However, the ambiguity in whether benefits outweigh costs might lead to a compliance mindset expressed by some interviewees. As one auditor explained, some charities approached it as a hurdle to be settled with minimal effort:

this client even said that they just wanted to make this easier to get through the audit and anything else they wanted actually to put into their Chairperson's and CEOs report. I do think that there have been a few clients that have pushed more towards 'let's make this easier and we can easily prove this number to you. And this is something we can easily audit'. So that's has been some of our clients as well. (A24)

### Key Benefits of Service Performance Reporting and Auditing

Despite all the challenges discussed, the introduction of mandatory service performance reporting and auditing has led to some positive changes. Based on interview data, this study identifies three key benefits: 1) improved transparency and accountability through more holistic and credible reporting; 2) strengthened performance measures and greater rigour in data collection and reporting processes; and 3) increased focus on understanding, evaluating, and more accurately attributing the impact of charitable work.

#### 1. Improving Transparency and Accountability

The majority of interviewees recognised the importance of *telling their stories* through SSPs. By disclosing service performance information alongside financial information, charities can provide a more holistic view of their operations, therefore improving transparency and accountability. These benefits are illustrated in the quote below from a Tier 3 charity, with annual expenses of NZD150,000 at the time of the interview. The charity used its SSP to demonstrate accountability and to build relationships with funders by celebrating its achievements.

We used to just have a very basic report. Dare I say, it was almost embarrassing to go to funders with it. It did not look professional, it didn't really capture what we did...We wanted to be able to go to funders and say, 'this is us. This is what we do', and actually have something that looks professional and legitimate. We are so incredibly grateful to our funders for the money that they give us. Now, we can actually go back to them and say, 'This is how we spent the money' and really capture what we've done - not only physically, but in terms of our benefits and outcomes. It's showing the difference that we've actually made in people's lives and demonstrates that every dollar is extremely well spent. It also helps us retain funders and donors as we can invite them to our AGM. And this is what we presented to our AGM. It's really a moment of celebration of what we've actually done. We've had a

few funders who have been able to attend over the years, and it helps to build that relationship with them. (C13, Tier 3 charity)

Auditing adds credibility to the reported service performance information and increases the legitimacy of both individual charities and the sector as a whole. It provides social credence, offering assurance that the reported numbers are not just internally generated claims but have been independently reviewed and verified. This verification gives stakeholders, such as donors, greater confidence and trust in the reliability of reported information:

I think that ultimately it's like auditing the financials. It gives us social credence. It means that we're not just putting up numbers that could be anything. They're actually something that someone has reviewed and said, 'these are meaningful and can be relied on in the context of the financials,' and I think that is valuable. ... So I think the value is in that people will look at them with a lot more confidence and our numbers are meaningful. (C30, T1 charity)

It lends credibility to the numbers. You can put those numbers out with anybody and they see an audit opinion attached to it. Well, it's true, you have been verified. It means a lot to our donors. It means a lot to our partners. When we say this is what we're doing we can actually prove that. (C14, T2 charity)

## *2. Strengthening performance measures and enhancing reporting rigour*

As mentioned earlier, most interviewed charities had already undertaken some form of service performance reporting prior to the introduction of PBE FRS 48. However, the mandatory reporting requirement still provided an opportunity for many to reflect on what constitutes appropriate and meaningful performance measures and to review or refine existing processes and controls to better capture and report these measures. In the example below, the charity shifted its measure from case-based to individual-based as a result of its reflection and developed a more systematic process to track data.

We report already - we want to share what our clients say about us, the benefits they receive and how many people we see. So there's nothing new about it for us. But I think what is new is really to do it more systematically and be able to trace [the changes] over the years...Previously, all our databases were set up for cases but not for individuals. If one person engaged in a certain service, they're listed, then they come back into another service, but they're listed again. So what do we report? The number of people seen or the number of cases. (C10, T1 charity)

The auditing process further enhances the accuracy and reliability of service performance information by encouraging the development or refinement of data collection systems and internal controls. This benefit was evident even in charities that already submit service performance information to funders or are subject to accreditation audits. The interviewee below pointed out that unlike reporting to funders and other stakeholders, which often allow adjustments in future reporting

cycles, audit demands a higher degree of precision and accountability. As one interviewee noted, an error in an audited report not only creates complications but can also raise concerns about data quality or even organisational competency:

I spend a lot of time telling everyone about how important accuracy is because once it is in [the audit report] it can't change. When we report to our funders, if we pick up an error in our previous dataset, we can just incorporate that into the next report and note it. But once it is audited, there's a bit of a palaver in adjusting a result, isn't there? You have to make a statement about it in the next report and then it just sort of introduces this whole uncertainty of what's going on there. (C23, T2 charity)

### *3. Demonstrating and moderating impact claims*

For some charities, the introduction of the SSP requirement served as a catalyst to reflect more deeply on their mission achievement and evaluate and demonstrate the impact of their work. The charity below undertook an organisation-wide project to better understand and measure its impact in response to the requirements:

We saw this as an opportunity to go, why don't we see if we can use this as a chance to both prove and improve our mission impact? Do we really know what difference we're making? Can we work hard to get a better idea of what difference we're making? And then once we know that, then we can obviously improve that difference by turning the dial on some of our metrics and the likes; so we decided to sort of start a process of trying to work out what our impact was, making sure that we could measure it and then use it. (C29, T1 charity)

Auditing also plays a critical role in moderating how charities communicate their impact. While many charities share their impact through channels such as newsletters, websites, or annual reports, there is a risk that they may overstate their role. The audit process places greater scrutiny on the impact claims in SSPs and encourages charities to clarify these attributions. For example, one charity that provides scholarships to support future doctors intends to report outputs achieved by those doctors after graduation. However, the auditor raised concerns about whether the outputs could be reliably measured and fully attributed to the charity. Another example, shown in Figure 14, demonstrates how a charity acknowledged the limits of its direct contribution, clarifying in its SSP that the impact was delivered by local partners and directing readers to the annual report for a comprehensive view of their impact.

Tearfund's partnership-led framework means not all areas of impact could be included in the Statement of Service Performance, impact delivery through partners being one such exclusion. Management, therefore, would refer readers to our Annual Report for a more comprehensive overview of impact over the year as this demonstrates the success of the work we help fund which is the ultimate outcome for our supporters, partners, and the participants in the projects.

### Child Development

Our goal is to meet children's development needs, so they are empowered to reach their full potential. Tearfund partners with Compassion International, which supports local faith communities to release children from poverty. Tearfund NZ sponsors support children through programme centre activities. Sponsorship helps provide educational and nutritional support, health care and a safe environment in which to grow and provides the opportunity to learn about God.

	2023	2022
Children sponsored through Tearfund NZ	10,320	10,989
Number of countries children are sponsored in	25	25

*Figure 14 - Example of articulation of impact on SSP*

### Concluding remark

Mandatory service performance reporting and auditing represent a new and evolving practice for both charities and auditors. As this research looked at the first year of the standard implementation, it was expected that both parties would encounter challenges in embedding the regulations into practice. However, this also marks the beginning of a shared learning journey. As charities continue to develop more structured and systematic processes and controls, the audit process will likely become more streamlined while also supporting improvements in internal management, governance, and strategic decision-making. Meanwhile, as auditors gain more experience in understanding how charities evaluate their performance, especially outcome or impact measures, we look forward to seeing more meaningful and credible service performance disclosures emerge in future SSPs.



## Appendix 1: Description of coding criteria

Coding criteria	Description
Charities' background and mission	<i>Who we are</i> <i>Why do we exist</i>
Output	<i>What did we do</i> <i>How did we perform</i> The immediate or direct products or services of the charity.
Outcome	<i>What did we do</i> <i>How did we perform</i> The medium to longer-term effect on individuals or society.
Comparative	<i>When did we do it</i> Comparison to the same measure in the previous year or an external target
Neutrality	<i>How did we perform</i> Whether examples of poor performance, project failures, negative effects or missed targets are provided
Methods used to gather or calculate outputs	<i>How did we perform</i> Evidence on how information was gathered or calculated
Link to the financial information and notes	<i>How did we perform</i> Clear link from SSP to financial statements and notes

## Appendix 2 Glossary used in the report

Term	Abbreviations	Description
Annual Report	No Abbreviation	The report (which is not necessarily the same as the GPFR) that an entity discloses on its website to communicate its performance.
General Purpose Financial Reports	GPFR	The statutory statements, which include SSP, Financial Statements and notes to the financial statements.
Service Performance Information	SPI	Service Performance Information includes quantitative and qualitative performance measures and qualitative descriptions. This information describes what an entity does and how it performs.
The Statement of Service Performance	SSP	The title of the report, which presents an entity's service performance information and contextual information (e.g. purpose of the entity)

**SPECIAL ISSUE ARTICLE****WILEY**

# Service performance assurance for small charities: Experiences from New Zealand

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Small charities in New Zealand are leading the way in service performance reporting and assurance, providing a unique context for exploring the existing practices and challenges. This study investigates small charities' assurance practices based on a content analysis of the performance reports of 120 small registered charities. We found that many small charities have complied with the assurance and reporting requirements of service performance information. However, their reported outcomes and outputs may not be significant, understandable, or sufficient. Auditors exhibit high tolerance towards these issues because of the subjectivity, auditability and materiality related to service performance information. Our study provides preliminary insights on service performance assurance for small charities, which presumably will continue evolving and hopefully improving. However, there is a concern that some charities and assurance practitioners view service performance assurance as a compliance exercise, which does little to improve accountability and transparency in the charity sector.

**KEYWORDS**

non-financial assurance, service performance information, small charities

## 1 | INTRODUCTION

The rise of service performance assurance is an emerging phenomenon in the charity sector. Service performance assurance involves an audit or review of charities' service performance information, which reports what they have done in working towards their missions or charitable purposes. This information is vital for discharging accountability and facilitating stakeholders' decision-making. While assurance of financial statements is necessary for financial accountability (External Reporting Board [XRB], 2019b), it does not capture charities' activities, outcomes and responsibilities towards their missions, beneficiaries and communities (Connolly & Hyndman, 2013a). In order to

enhance the credibility of service performance information and improve public trust (Yang & Northcott, 2019), attention and discussions are increasingly focusing on service performance assurance. However, assurance of service performance information will likely face challenges given the qualitative nature of information, subjectivity in selecting suitable measurements and insufficient internal controls in producing the information.

Prior studies have mainly focused on large charities and their accountability and financial assurance practices (Connolly et al., 2018; Connolly & Hyndman, 2013a; Yang & Northcott, 2019). It is only in recent years that greater research attention has shifted to small charities (Hooks & Stent, 2019; Kemp & Morgan, 2019; Thompson & Morgan, 2020). This group of organisations has unique characteristics and challenges. For example, many small charities are grassroots and provide local knowledge about on-the-ground needs and connections

The authors made equal contributions to the paper.

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(Yang, 2021), and they represent most charities in many jurisdictions. However, they generally lack resources and professional support (Hull, 2013) to measure and report their performance. A recent New Zealand (NZ) study identified resistance from small charities to disclose service performance information, which is draining constrained expertise and resources (Hooks & Stent, 2019). Despite this knowledge about small charities' service performance reporting, there is an extremely limited understanding of their service performance assurance, mainly because they are not required to do so in most jurisdictions.

To our knowledge, NZ is a pioneer in mandating assurance of charities' service performance information, thus providing an exceptional context for this research. Interestingly, small charities have led the way in this regulatory change since 2015. Large charities will be subject to mandatory service performance assurance in 2023 and thus are not in the scope of this research. This study focuses on small charities in the Tier 3 reporting framework subject to mandatory assurance requirements (more details in Section 2.1) and examines their compliance with these service performance assurance requirements and the challenges they face. Tier 3 charities are socially and economically significant. The total income of Tier 3 charities is NZ\$ 22 billion, of which almost NZ\$ 9 billion is generated from providing goods or services and NZ\$7 billion from public donations. These charities maintain 3 million volunteers providing 54 million volunteer hours and 254,000 paid employees (Charities Services, 2020).

This study examines the assurance practices and challenges related to small charities' service performance information. Building on a detailed content analysis of small charities' performance reports, our study found that most small charities comply with the mandatory assurance requirements by disclosing and assuring service performance information. Although about half of the charities make good efforts in reporting suitable performance measures, the other half of charities' service performance information is unclear, insufficient or disconnected from the charities' outcomes and missions. These issues are tolerated by assurance practitioners, suggesting that the practitioners may be sympathetic towards charities' efforts in reporting non-financial information. Auditors' tolerance may result from prioritising financial information over non-financials, and service performance information can be subjective and inherently difficult to verify. Some charities and auditors seem to exhibit a compliance mindset, focusing primarily on the form rather than the substance of the reporting. Therefore, the information reported may not necessarily meet users' needs.

This research intends to contribute knowledge to NZ charity auditing and assurance policy and practice and potentially extend this knowledge to other countries that would like to adopt similar requirements. The paper is organised as follows. The next sections introduce the regulatory environment of the charity sector in NZ as well as a literature review. The following sections explain the research method before presenting the findings and discussing their implications.

## 2 | BACKGROUND

### 2.1 | NZ charity regulatory environment

Since 1 April 2015, many registered charities in NZ have been required to comply with reporting and assurance requirements relating to financial and non-financial service performance information. These service performance requirements were developed by the NZ Accounting Standards Board and the NZ Auditing and Assurance Standards Board of the External Reporting Board. As the charities' regulator, Charities Services, a government agency, monitors charities' compliance and their submissions of annual returns and performance reports.

NZ charities operate under a four-tier reporting framework based on their annual expenditure or operating payments (see Table 1). Tier 1 charities (expenditure over \$30 million) must fully apply the International Public Sector Accounting Standards (IPSAS), as adapted for NZ's Public Benefit Entities. The reporting regime for Tier 2 charities (expenditures under \$30 million and over \$2 million) has the same accounting standards but with reduced disclosure requirements. In comparison, most charities (96%) are in Tier 3 (expenditure under \$2 million and over \$125,000) and Tier 4 (operating payments over \$125,000). These small charities must comply with Public Benefit Entity Simple Format Reporting (PBE SFR) standards developed by the NZ accounting standard-setter and prepare a 'performance report' that contains both financial and service performance information to present a holistic view of their annual performance. A performance report contains seven key statements: entity information, statement of service performance, statement of financial performance, statement of financial position, statement of cash flows, statement of accounting policies and notes to the performance report.

A separate standard specifically addressing service performance reporting (Public Benefit Entity Financial Reporting Standard 48) was later developed for Tier 1 and Tier 2 charities and became effective in 2022.

Similar to the reporting requirements, service performance assurance was first mandated in 2015 for some Tier 3 charities, followed by a requirement for Tier 1 and Tier 2 charities to comply in 2023. Tier 3 charities represent 22% of the total number of charities (over 6,000 charities). The applicable assurance standards<sup>1</sup> of service performance information include the International Standard on Assurance Engagements (NZ) 3000 effective from 2015 and the newly developed NZ AS1, the Audit of Service Performance Information (effective from 2024) (XRB, 2019a). An Explanatory Guide (EG) Au9, issued in 2015, was the first official guidance developed by the NZ Auditing and Assurance Standards Board to audit or review service performance information (XRB, 2015). Interestingly, unlike reporting requirements that mandate all charities in different tiers, assurance requirements currently only apply to some Tier 3 charities.<sup>2</sup> As outlined in Table 2, based on their annual expenditure, Tier 3 charities can be audited, reviewed or neither (Charities Services, 2022c).

**TABLE 1** Reporting and assurance standards for charities in different tiers.

Tier	Annual expenditure	Financial reporting standard	Service performance reporting standard	Service performance assurance standard
1	>\$30 million annual expenses (1% of charities)	Full IPSAS standards (as adapted for NZ's PBE)	PBE FRS 48 Service Performance Reporting (from 1 January 2022)	NZ AS 1 the Auditing of Service Performance Information (from 1 January 2024) <sup>a</sup>
2	≥\$2 million and <\$30 million annual expenses (3% of charities)	Reduced disclosure regime		
3	≥\$125,000 and <\$2 million annual expenses (22% of charities)	Public Benefit Entity Simple Format Reporting—Accrual (from 1 April 2015) PBE SFR-A (NFP)		International Standard on Assurance Engagements (NZ) 3000 (from 1 April 2015) or NZ AS 1 the Auditing of Service Performance Information (from 1 January 2024)
4	<\$125,000 annual operating payments (74% of charities)	Public Benefit Entity Simple Format Reporting—Cash (from 1 April 2015) PBE SFR - C (NFP)		Not required

Abbreviation: IPSAS, International Public Sector Accounting Standards.

<sup>a</sup>The effective date of NZ AS 1 was initially deferred from 1 January 2022 to 1 January 2023 and then deferred again to 1 January 2024, but it was available for early adoption.

**TABLE 2** Tier 3 charities assurance requirements.

Annual expenditure	Service performance assurance
≥\$1 million and <\$2 million	Audit
≥\$500,000 and <\$1 million <sup>a</sup>	Audit or review
≥\$125,000 and <\$500,000	Not required

<sup>a</sup>The expenditure levels for statutory audit and review requirements were updated from 1 million and 500,000 to 1.1 million and 550,000 respectively (Charities Services, 2022c) at the time of writing this paper. However, given that the data collection and analysis were based on the previous requirements, the previous expenditure levels are explained in this paper with the expectation that the results are applicable to the new levels.

Since this paper examines service performance assurance practices, it focuses on those Tier 3 charities subject to assurance requirements and their reported service performance information presented in the two non-financial statements: 'Entity Information' and 'Statement of Service Performance' (see Table 3). Entity Information summarises 'who are we' and 'why do we exist', including a charity's name, mission statement or purpose, the structure of operation and reliance on volunteers [PBE SFR-A (NFP), A36–37]. This provides contextual information about a charity, and the information does not usually change on an annual basis. The Statement of Service Performance aims to facilitate users' understanding of 'what did the charity do' during the financial year [PBE SFR-A (NFP), A39], which includes two key elements: 'outcomes' and 'outputs'. Outcomes are what a charity seeks to achieve in terms of their impact on society, and outputs are the goods or services that a charity delivers during the financial year [PBE SFR-A (NFP), A41 (a)].

According to A41 of the PBE SFR-A (NFP), a charity's mission/purpose, outcomes and outputs must be closely connected but with different disclosure requirements (XRB, 2022). The 'mission' statement of a charity is expressed in *broad* and general terms that cover the lifetime purpose of a charity. In contrast, while closely related to the mission statement, 'outcomes' focus on the *specific* goals of the

charity over the short to medium term. 'Outputs' are the goods or services delivered by the charity during the financial year, which should be described and quantified "to the extent practicable" [A41 (b)] with comparative figures disclosed (A17). It is the charities' responsibility to identify outcomes and outputs to reflect their service performance and quantify the outputs to the extent practicable. The statement of service performance should provide relevant, reliable and significant information about outcomes and outputs which are understandable for users of the performance report (A10, A27 and A42). The service performance information is for charities to 'tell their story' about what they did and how they achieved their goals.

Assurance practitioners are required to conduct an audit or review of the service performance information concurrently with the financial statements of a charity. They must express an opinion or conclusion on whether the entire performance report rather than just financial reporting complies with PBE SFR-A (NFP), and whether the 'identified outcomes, outputs and quantification of the outputs to the extent practicable are suitable'. To do so, auditors should obtain an understanding of how a charity determines and selects outcomes and outputs and assesses relevant controls. Auditors must obtain sufficient and appropriate evidence to verify that performance measures and descriptions are reliable, significant, comparable and understandable. However, many challenges exist in assurance in terms of the subjective and narrative nature of service performance information, which will be discussed further in the literature review section.

## 2.2 | Literature review

### 2.2.1 | Small charities' assurance and reporting practices

The external assurance of financial statements of public benefit organisations, including charities, has an important role. Hay and Cordery

**TABLE 3** NZ charities tiered reporting framework.

Tier	Annual expenditure	Financial reporting	Service performance reporting	Service performance assurance
1	>\$30 million annual expenses	Financial statements in accordance with generally accepted accounting practice	Not required until 1 January 2022	Not required until 1 January 2023
2	≥\$2 million and <\$30 million annual expenses			
3	≥\$125,000 and <\$2 million annual expenses	<ul style="list-style-type: none"> <li>• Statement of financial performance</li> <li>• Statement of financial position</li> <li>• Statement of cash flows</li> <li>• Statement of accounting policies</li> <li>• Notes</li> </ul>	<ul style="list-style-type: none"> <li>• Entity information</li> <li>• Statement of service performance</li> </ul>	Audit, review or none (see Table 2)
4	<\$125,000 annual operating payments	<ul style="list-style-type: none"> <li>• Statement of receipts and payments</li> <li>• Statement of resources and commitments</li> <li>• Notes</li> </ul>		Not required

(2017) summarised the value of assurance in a public sector audit, including mitigating agency risks, signalling good performance and providing credible financial information to attract greater contributions. These reasons for assurance are also relevant to charities. Agency theory explains the importance of externally verified financial information to address information asymmetry between charities and their external stakeholders, including funders and donors. Signalling theory explains that not-for-profit organisations use audited financial statements and appoint high-quality auditors (Hay & Davis, 2004) to signal good management controls and performance. Even before the mandatory assurance requirements, many charities had to be audited in accordance with their constitution or founding documents.

Financial assurance for charities is an established practice internationally. In the United Kingdom, small charities with an annual income under £1 million are generally subject to the scrutiny of independent examiners. An independent examiner is 'an independent person who is reasonably believed by the [charity] trustees to have the requisite ability and practical experience to carry out a competent examination of the accounts' (UK Charities Act 2011, s145(1)(a)). Large charities with an annual income over £1 million, representing 4% of charities, must be audited by qualified accountants. Therefore, an independent examination is a primary form of external assurance for small charities in the United Kingdom and having an unqualified report helps build donor confidence (Kemp & Morgan, 2019). This is because many individual donors neither understand nor are able to undertake scrutiny of charities' financial statements themselves and rely entirely on auditors or independent examiners to verify this information (Connolly & Hyndman, 2013a). Although independent examiners can only provide limited assurance of financial information, similar to a review, Morgan (2011) argues that the examination is more than an informal checking of accounts and thus adds credibility to charities' accounts and becomes an essential means for small charities to discharge accountability. However, despite the importance of having an audited financial statement, it is seen as the least useful type of disclosure by donors to large charities (Connolly & Hyndman, 2013a). Similarly, most funders of small charities consider

that a qualified opinion on charities' financial statements does not necessarily mean mismanagement and thus will not affect the funding of charities. A qualified report only sends a signal to ask questions rather than deter charities from seeking grants (Kemp & Morgan, 2019). Financial accountability is secondary compared to a growing emphasis on service performance by charity stakeholders (Connolly & Hyndman, 2013a).

The benefits of service performance reporting include improving transparency and accountability, enhancing internal management and future service delivery, and building public trust and confidence in the charity sector (Connolly et al., 2018; Yang & Northcott, 2019). Regardless of the different approaches used to regulate charities in various countries, the expectation for charities to report their service performance is rising (McConville & Cordery, 2019). Nevertheless, it is challenging for charities in general and small charities in particular to measure and disclose their service performance information, given the qualitative nature and resource constraints (Chaidali et al., 2022; Hooks & Stent, 2019; Yang, 2021). These challenges, coupled with the issue of generating meaningful performance information, resulted in fewer small charities engaged in performance measurement and reporting compared with large charities (Chaidali et al., 2022). To ensure the credibility of service performance information, the needs for service performance assurance are likely to increase. For example, some NZ government agencies demand an audit of service performance information for the charities they funded (although not via auditing firms) because these agencies are often accountable for the service performance provided by those charities due to the contracting of public service (XRB, 2019b). However, there is extremely scant literature on service performance assurance for small charities. Since non-financial service performance assurance in the charity sector is not mandatory in most jurisdictions, this important area receives little or no research attention. Therefore, the NZ regulatory context provides a unique research setting to examine small charities' service performance assurance practices. Given the absence of charity literature in this area, we draw on the assurance of non-financial information in the private sector to broaden the literature review.

## 2.2.2 | Challenges in assurance of non-financial information

Service performance reporting is a form of emerging external reporting that aims to provide stakeholders with broader and more holistic information about an entity's performance. Assurance for non-financial information is on the rise, particularly with growing demands and requirements for environmental, social and sustainability reporting. However, assuring emerging external reporting includes several challenges identified by the International Auditing and Assurance Standards Board (IAASB) (2016) discussion paper, some of which are relevant to the assurance of service performance information.

Small charities may lack internal control over the service performance reporting process. This directly affects the auditability of service performance information. Verifying performance indicates organisations need to 'make things auditable', which involves an expensive process of building an environment to produce 'facts' and determining what kind of things are acceptable as evidence (Power, 1996). In the context of service performance assurance, small charities need to effectively design measures of non-financial performance and processes that can be implemented to collect data for such measurements. However, given the inadequate in-house resources and reporting expertise, such processes might not be properly designed and implemented. A weak control environment with higher control risks will likely lead to insufficient evidence for reported information, thus creating difficulty for verification.

Furthermore, non-financial information that includes narratives or images is qualitative in nature, which can be highly subjective, less observable and susceptible to management bias (such as evaluative type of information rather than factual information) (IAASB, 2016). Management subjectivity and bias may directly affect the selection of reported content. Since there is no prescribed number of outcomes and outputs that a charity should disclose, a charity may choose to disclose one or two outputs that do not sufficiently cover the outcomes of the charity. It would be difficult for auditors to verify whether all significant outputs that should be disclosed have been disclosed. The reporting standard PBE SFR-A (NFP) recognises that service performance contains narrative information and thus allows a degree of tolerance on the quantification of outputs, which is reflected in the phrase 'to the extent practicable'. However, this phrase could also become an excuse for both preparer and assurance practitioners to legitimise insufficient and irrelevant disclosures of service performance information.

Another challenge for service performance assurance is the concept of materiality. Materiality is a tolerable threshold of error and/or omission in an assurance engagement. Auditors determine whether reported information fairly represents an organisation's performance and complies with applicable standards based on whether there are material errors, omissions or deviations from standards. The determination of materiality relies on the auditor's independent assessment based on the auditee's context and what is perceived as material from the information users' perspective. Materiality is highly subjective, even in a financial statement audit (Brennan & Gray, 2005).

Nonetheless, in the financial statement audit, auditing standards provide some benchmarks (net profit, asset or turnover) to determine materiality, such as 5%–10% of net profit. The vagueness of materiality is exacerbated in a non-financial assurance engagement because of the nature of information and the absence of benchmarks (Edgley et al., 2015). In the context of social and environmental reporting assurance (SERA), Edgley et al. (2015) suggest that materiality addresses the risks related to an absence of relevant and reliable information about corporate material impacts on the wider social environment and climate. Therefore, both relevance and completeness of information should be part of the materiality consideration. Many assurors, particularly assurors from the accounting profession, tend to narrowly focus on the accuracy of the reported data (Edgley et al., 2015) and fail to consider a wide range of stakeholders' information needs. They thus fail to produce meaningful assurance in a holistic evaluation of environmental, social and sustainability reports (Gray, 2000; O'Dwyer & Owen, 2005). Materiality in service performance assurance can be also vague and problematic, as it is in SERA. To add to the confusion, as assurance is required for the entire performance report, the question remains how auditors apply an overall materiality to both financial and non-financial information. Indeed, the application of materiality for financial information is not applicable when assuring a statement of service performance. However, there is limited guidance provided in audit standards and regulations. For example, ISAE (NZ) 3000 applies a traditional, accounting risk-based approach to determine materiality, which focuses on the reliability of information and assurance risk (Edgley et al., 2015). ISAE (NZ) 3000 states that auditors need to apply professional judgement about materiality by considering both quantitative and qualitative factors of information (paragraphs A95–97). NZ AS 1 (paragraphs 31 and 50) specifies that auditors should determine materiality based on whether the service performance criteria are suitable and whether the misstatements (including omission of facts) of reported information are likely to significantly influence the decisions of intended users (XRB, 2019a). These challenges in mandated service performance assurance open up an interesting and valuable area of research in the context of small charities, which differs significantly from large corporates' economic, social and sustainability assurance. This research aims to investigate the assurance practices and challenges related to service performance information for small charities.

## 3 | METHOD

To address the research question, registered charities' most recent performance reports and annual return summaries<sup>3</sup> were collected for content analysis. Content analysis is a well-established method used in prior studies to analyse assurance reports of sustainability reports (O'Dwyer & Owen, 2005) and charities' narrative reports (Morgan & Fletcher, 2013). A Tier 3 charity in NZ must submit an annual return within 6 months of their balance date in accordance with Sections 41 and 42 of the Charities Act 2005. The rationales for using these documents were twofold. Firstly, the data, as regulatory required

	Arts	Education	Religion	Total
Audit (expenses >\$ 1 million and <\$ 2 million)	20	20	20	60
Audit or review (expenses >\$500,000 and <\$1 million)	20	20	20	60
Total	40	40	40	120

**TABLE 4** Sample of small charities (n = 120).

documents, is publicly available via an online Charities Register managed and monitored by the NZ Charities Regulator Charities Services. Secondly, the most recent reports were selected,<sup>4</sup> representing the latest understanding of charity service performance reporting and assurance practices.

### 3.1 | Data collection

The dataset (Table 4) included Tier 3 charities from both ends of the expenditure spectrum: those annual expenditures over \$500,000 and those less than \$2 million but above \$1 million. Selection was based on size (expenditure level) to cover different assurance requirements (audit or review, see Table 3). NZ charities are broadly represented in 19 sectors,<sup>5</sup> and this research selected the top three sectors in NZ based on the number of charities in each sector: Education (21.6%), Religion (18.5%) and Arts/culture/heritage (hereafter 'Arts') (9.3%)<sup>6</sup> (Charities Services, 2022a).

The data were drawn from the website of the Charities Register, which maintains financial and non-financial information for every registered charity in NZ, including charity name, registration number, address, annual expenditure and sector (Charities Services, 2022b). We filtered out Tier 3 charities and then sorted the charities based on the selected expenditures and sectors. Charities in the category over \$1 million and less than \$2 million with the most significant expenditures were chosen by sorting the expenditures from largest to smallest and selecting the top 20 charities in each sector of Arts, Education and Religion. Charities in the category over \$500,000 and less than \$1 million with the lowest expenditures were chosen by sorting the expenditures from smallest to largest and selecting the 20 charities with the least expenditure in each sector. In this way, the aim was to include a broad sample to represent most charities subject to service performance assurance. Each charity was assigned a unique reference number based on the initial of its industry and size. For example, Education charities with expenses greater than \$1 million were numbered E1, E2, E3 etc., and Education charities with expenses greater than \$500,000 were numbered E5-1, E5-2, E5-3 etc. In Section 4, information concerning a charity's identity is blocked out. In total, the sample included 120 charities, of which 20 were selected from each sector from both ends of the expense spectrum but excluded de-registered charities and those that belong to a group<sup>7</sup> (see Table 4).

Geographically, the sample covered 43 regions in NZ. Although slightly more than half (50.8%) were from major cities in NZ (Table 5): Auckland, Wellington and Christchurch (the three largest cities in NZ), it is interesting to note that 49.2% of the reports came from a variety

**TABLE 5** Region of charities' locations (n = 120).

Region	Number	Percentage
Auckland	33	27.5%
Wellington	15	12.5%
Christchurch	13	10.8%
Other	59	49.2%

of regions, including Blenheim, Gisborne, Hamilton, Hastings, Napier, Nelson and Tauranga. This shows the unique local representations of small charities' service coverage and the wide geographical distribution of the selected sample.

For each sample, there was a particular focus on sections of entity information, statement of service performance and independent auditor's or reviewer's report contained in its performance report. For the charities that did not disclose their independent auditor's or reviewer's reports, a further search on their annual return summaries<sup>8</sup> was conducted to cross-check whether the charities had confirmed their performance reports were reviewed or audited and/or whether they disclosed an audit fee in their financial information. If a charity either disclosed an audit fee or indicated that an audit or review was conducted in the annual return, it was considered that the charity had performed an assurance but did not disclose the audit report/review conclusion. Since the documents reviewed in this study are publicly available, the names of the charities and auditors are anonymised.

### 3.2 | Content analysis

To facilitate systematic and consistent analysis, a framework was developed to analyse service performance information and assurance reports. The elements of the framework were informed by both the assurance guidance of service performance information (i.e. EG Au9 and ISAE 3000) and the reporting standards PBE SFR-A (NFP). In accordance with the framework, the performance reports and annual return summaries were manually analysed for each element as shown in the left column in Table 6.

Judgement was specifically applied to the appropriateness of outcome, relevance, sufficiency, comparability and understandability of outputs. The rule of thumb was whether we, as stakeholders, understood what the charities were supposed to do and what they did do based on their service performance information. We developed coding to note down the issues observed by using five examples in each sector for each of the two categories. For example, if no outcome was



**TABLE 6** Data analysis framework.

Analysis element	Rationale of analysis
Charity background <ul style="list-style-type: none"> <li>Entity name</li> <li>Reporting year</li> <li>Total annual expenditure</li> </ul>	Provide background information for each sample
Assurance information <ul style="list-style-type: none"> <li>Assurance provider</li> <li>Standards used</li> <li>Type of assurance (audit or review)</li> <li>Scope</li> <li>Audit fee</li> <li>Type of audit opinion or review conclusion</li> <li>Disclosed issues (reasons for modifications)</li> <li>Auditor's responsibilities towards service performance information</li> </ul>	This information was drawn from each audit or review report to understand the identities of the assurance firms, assurance scope, type of conclusions/opinions, and assurance standards.  We compared the auditors' conclusions with our observations on each charity's service performance disclosures.
Mission and outcomes <ul style="list-style-type: none"> <li>Entity mission</li> <li>Outcome disclosed</li> <li>Appropriateness of outcome (judgement)</li> <li>Difference between mission and outcome (yes/no)</li> </ul>	Disclosed mission and outcomes were checked to determine whether specific outcomes were closely related to the mission and not identical as required by paragraph A41 (a) PBE SFR- A (NFP).
Outputs <ul style="list-style-type: none"> <li>Outputs disclosed</li> <li>Description and quantification of outputs (judgement)</li> <li>Significant outputs (judgement)</li> <li>Comparative outputs (yes/no)</li> </ul>	Each output was examined to check its relevance, significance, comparability and understandability, which are required by paragraphs A41(b), A42, A17 and A10 of PBE SFR-A (NFP)  It was also considered whether the disclosed outputs were sufficient to reflect a charity's operation.
Annual return summary—Audit & Review Checklist <ul style="list-style-type: none"> <li>Follow the charity's rule to review or audit (yes/no)</li> <li>Level of operating expenditure</li> <li>Confirm if the performance report submitted is reviewed or audited (yes/no)</li> <li>Received a modified audit opinion other than completeness with cash donations (yes/no)</li> </ul>	Sections 41 and 42 of the Charities Act 2005 requires charities to file annual returns. This was checked for charities that did not disclose assurance reports in their performance report. Answers to these questions were checked to determine whether the charities had performed an audit or review.

disclosed, the code was 'no outcome'. If the output was not relevant or significant, the code was 'irrelevant'. If significant outputs were omitted, the code was 'insufficient'. Two Research Assistants then applied coding to their allocated documents and met with us on a weekly basis over 2 months to discuss any discrepancies and questions. We provided ongoing revisions of the coding enacted by the Research Assistants to increase reliability and consistent use of

coding. Further data analysis aggregated and compared the elements in Table 6, which will be discussed in Section 4.

## 4 | FINDINGS

This section is structured to first present an overview of service performance assurance practices for small charities and then to focus on specific issues related to outputs and outcomes as the key reporting elements in the Statement of Service Performance.

### 4.1 | Service performance assurance practices

#### 4.1.1 | Assurance practitioners

There were a total of 54 different professional accountancy firms that provided assurance services to the small charities in our sample<sup>9</sup>—34 firms in each lower and higher expense group. Table 7 lists the top 14 auditing firms which conducted at least three engagements. For example, William Buck Audit (NZ) Ltd provided seven engagements (6.5%), which was the highest number of engagements, followed by BDO, which provided six engagements (5.6%). In addition to the top 14 firms, nine firms each conducted two engagements, and 31 firms conducted one. This shows a wide diversity of assurance practitioners who provided services for small charities without a strong presence of the Big 4 accounting firms. The Big 4 accounting firms' low presence in this market may reflect that the small charities had little desire to utilise the Big 4 firms' reputations to signal the legitimacy of their performance, and those firms probably had little interest in small charities' business. The small charities generally engaged with small assurance providers, whom they often knew of via word of mouth and perhaps from their local regions.

#### 4.1.2 | Scope and type of assurance

As outlined in Table 8, 67% (80/120) of charities had assurance on the full scope of their performance reports and disclosed their assurance reports in the performance reports. However, 10% (12/120) of charities conducted assurance on financial information only,<sup>10</sup> and 23% (28/120) did not disclose their assurance reports.<sup>11</sup> The unavailability of the assurance reports not only created difficulties for this research, but more importantly, it failed to meet users' information needs and missed the opportunity to signal to stakeholders the good performance of the charities. It may indicate that some charities do not perceive that making their assurance reports publicly available is beneficial.

For those charities that disclosed their assurance reports (see Table 9), 88% of them (81/92) conducted an audit, which included almost all<sup>12</sup> higher-expense charities (expenses over \$1 million) and most of the lower-expense charities (expenses less than \$1 million). This shows that overall small charities preferred to engage in high-

**TABLE 7** The top assurance practitioners for small charities.

Name of assurance firm	Expenses >500k and <1m	Expenses >1m and <2m	Total
William Buck Audit (NZ) Ltd	5	2	7
BDO	2	4	6
Audit Integrity Ltd	1	4	5
Charity Integrity Audit Ltd	3	2	5
Crowe NZ Audit Partnership	0	5	5
Campbell and Campbell Accounting Consultants	2	2	4
CKS Audit	3	1	4
Independent Auditors Ltd	1	3	4
KPMG	1	3	4
Ashton Wheelans	1	2	3
Audit Professionals	1	2	3
Grant Thornton	0	3	3
HP Hanna & Company Ltd	2	1	3
Kendons Chartered Accountants Ltd	0	3	3

**TABLE 8** The scope of assurance.

Scope of audit/review	Expenses >500k and <1m	Expenses >1m and <2m	Total
Performance report (service performance + financial)	36	44	80
Financial information only	7	5	12
No assurance report provided	17	11	28
Total	60	60	120

Type of assurance engagement	Expenses >500k and <1m	Expenses >1m and <2m	Total
Audit	33	48	81
Review	10	1	11
Total	43	49	92

**TABLE 9** The type of assurance.

level assurance, particularly those smaller charities with freedom of choice. Alternatively, this might not be a choice but rather what the charities' rules or constitutions required when they were established.<sup>13</sup>

#### 4.1.3 | Types of audit opinion and review conclusion

The audit opinion or review conclusion expressed on the performance report followed the same format as a traditional financial statement audit opinion (without key audit matters) or review conclusion. Materiality was not explicitly mentioned in service performance information in any assurance report.

Table 10 shows that 20% of charities (16/81) received a modified audit opinion and 45% (5/11) received a modified review conclusion.<sup>14</sup> The results were similar for the two groups of charities in which higher expense charities (20%–10/49) slightly outperformed

lower ones (26%–11/43). The reasons for modifications were mainly related to financial information (e.g. cash donations), except for one charity only. This seems to indicate a high level of compliance with service performance reporting because most auditors believed that the service performance information complied with the Tier 3 reporting standards and that the charities' selected performance measures were suitable.

Only one charity (coded as E22) received a modified opinion relating to service performance reporting because of insufficient evidence on two output measures. The charity mentors Māori and Pasifika youth. Exhibit 1 shows an extract of its Statement of Service Performance.

As stated in the audit report, the reason for a qualified opinion was due to the lack of sufficient and appropriate evidence to verify two outputs, namely, 'the number of mentee families who received food parcels and the number attendees at the annual basketball Polyjam community event' as disclosed on Exhibit 1. The auditor could not verify the reliability of the outputs, indicating an auditability

**TABLE 10** Types of audit opinion and review conclusion.

Type of opinion/conclusion	Expenses >500k and <1m	Expenses >1m and <2m	Total
Audit—unmodified	27	38	65
Audit—modified	6	10	16
Review—unmodified	5	1	6
Review—modified	5	0	5
Total	43	49	92

Description of the Entity's Outcomes			
1. To break the cycle of disengagement of Maori and Pacific youth from their families, schools, and communities			
2. To establish Communities of Practice with a shared vision of improving outcomes for young Maori and Pacific people and their families			
Description of the Entity's Outputs			
As a cultural relationship-based intervention service for young people, ██████████ completed mentoring with 667 young people and their families. These attendees are made up of:			
One to one academic and life skills mentoring; in-schools Healthy Relationships group programme; in-schools Leadership group programme; a mentoring life skills through sport - Polyjammers basketball programme; a transition to adulthood programme for young people who have been in state care; a residential homes educational and pastoral care programme working alongside excluded youth. This work often includes wrap around service supported mentoring which involves working with families to remove or alleviate risk factors and to also provide advocacy support to young people transitioning back into education; transitioning to adulthood/independence; facing suspension or exclusion from school.			
Annual Community Polyjam Basketball Event raising funds for Christmas Hampers and gifts for our young people and their siblings. Provision of Food Parcels alleviate financial pressures in the homes of the young people we work with as part of our holistic approach to young person's wellbeing.			
Quantification (to the extent practicable) of the Entity's Outputs:	Actual This Year	Budget This Year	Actual Last Year
Mentees - group and individual packages of care	667	448	448
Mentees - on-going individual packages of care (in addition to above)	27	33	33
Annual Basketball Polyjam Community Event Attendees	201	200	225
A food Parcels for Mentee Families	404	250	225

**EXHIBIT 1** E22 Statement of Service Performance 2020.

issue. The charity might not have had sufficient controls to show that the food parcels despatched were indeed received by mentee families or that the number of attendees was accurate. A modified opinion indicates that the auditor believed that insufficient evidence on two of the four reported outputs was a material issue. Interestingly, compared with most of the charities' disclosed service performance information, we found this charity better complied with the reporting standards because the outcomes were appropriate, the descriptions and quantifications of outputs were clear, the outputs were relevant and significant and comparative figures were provided. It is interesting to note that most of the charities that had issues with their disclosed service performance information received no modifications on their service performance information; however, this charity was given a qualified opinion on its service performance information. More specific issues are analysed in detail in Section 4.2.

#### 4.1.4 | Standards used in full-scope assurance

Of the 80 charities that conducted full scope assurance (see Table 11), 90% (72/80) of the engagements complied with the appropriate assurance standards being used—either ISAs (NZ) & ISAE (NZ) 3000, ISAs (NZ) & NZAS 1 or ISRE (NZ) 2400 & ISAE (NZ) 3000.<sup>15</sup> However, 10% (8/80) used assurance standards

inconsistent with full-scope engagements. The assurance practitioners for the eight charities were four small local firms, suggesting the issue was concentrated in particular local firms. Seven engagements used the assurance standards related to financial information only (three applied ISAs and four applied ISRE 2400) and one used NZ AS 1, which only related to service performance information. It is surprising that auditors using one set of standards (either related to financial or non-financial information) could arrive at opinions or conclusions related to the full scope of the performance report. Almost 14% (5/36) of assurance engagements in the lower expense charities used standards inconsistent with the scope, which was higher than the 7% (3/44) observed in the higher expense group.

Overall, there was a high level of compliance with service performance reporting/assurance standards by small charities, and many charities (67%) engaged in full-scope assurance on their performance reports and made their assurance reports available to the public. Nonetheless, various issues were found in the reported service performance information, which will be discussed next.

#### 4.2 | Suitability of outcomes and outputs

By way of an unmodified opinion on the statement of service performance, auditors affirmed that the charities had complied with PBE

**TABLE 11** Assurance standards used in full-scope engagement.

Standards used in the full scope of assurance	Expenses >500k and <1m	Expenses >1m and <2m	Total
ISAs (NZ) & ISAE (NZ) 3000	25	39	64
ISAs (NZ) & NZAS 1	1	2	3
ISRE (NZ) 2400 and ISAE (NZ) 3000	5	0	5
ISAs (NZ) only	1	2	3
NZAS 1 only	0	1	1
ISRE (NZ) 2400 only	4	0	4
Total	36	44	80

SFR-A (NFP) and that the performance measures were 'suitable'. As explicitly stated on the assurance report of small charities, the auditor's responsibilities were to

perform procedures to obtain evidence about and evaluate whether the reported outcomes and outputs, and quantifications of the outputs to the extent practicable, are relevant, reliable, comparable and understandable.

Due to the limitation of content analysis, it was not possible to evaluate the reliability of the reported outcomes and outputs; instead, the focus was on the relevance, comparability and understandability of this service performance information disclosed by the charities. Of the 79<sup>16</sup> charities with full assurance scope and which received no modification on service performance information, we found that 49% (39/79) of charities had no issues with service performance information. However, 51% of the charities had various issues with their reported outcomes and outputs, which are illustrated below with some examples that could be potential areas for further improvements.

#### 4.2.1 | Outcome issues

Outcomes are specific goals when pursuing a charity's mission, and are fundamental to the charity's existence. In line with PBE SFR-A (NFP) A 41 (a), we assessed whether the charity's mission statement and outcomes had been disclosed, whether they were identical and whether the reported outcomes were too broad. Table 12 shows that 75% (59/79) of charities disclosed relevant and specific outcomes to achieve their missions. However, the remaining charities seemed confused about the meanings of outcomes. For example, 14 charities had very broad outcomes, four charities' outcomes were identical to their missions and two charities did not even report outcomes.

These issues indicate that some charities either lacked an understanding of the meaning of outcomes or did not have a clear outcome to report. They also seemed confused about the differences between missions and outcomes despite paragraph A 41 (a) of PBE SFR-A (NFP) explicitly expressing that outcomes and missions should be different (see Section 2). The example below shows that the charity R20

disclosed performance measures in the outcome section (the first reporting element in the Statement of Service Performance), suggesting that they might have misunderstood the reporting template or believed performance measures are equivalent to outcomes (Exhibit 2).

Exhibit 3 shows another example of outcome issues. E1 was an education charity that failed to specify the short to medium-term outcomes in fulfilling its mission. It is unclear how the trustees' satisfaction was achieved. More specific outcomes for this charity could be funding collaborative programmes to improve sports participation or relieving child poverty to improve school attendance rate. However, the charity failed to outline any specific outcome.

Although auditors seemed to tolerate the vagueness of the outcomes, it was regarded as worth noting since the reported outcomes were too broad to provide users with useful information about what the charity intended to achieve in the short or medium term. The concept of materiality should have rested on whether omission or unclear outcomes were likely to affect users' decision-making. The findings suggest that auditors/reviewers perceived the outcome issues identified as immaterial, which in their view would not affect users' decision-making.

#### 4.2.2 | Output issues

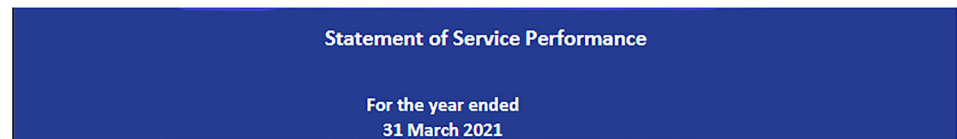
Compared with the outcome issues, it was found that the disclosed outputs were more problematic, but this was also tolerated by auditors. Charities are required to describe their significant outputs (e.g. activities, goods and services provided) that occurred during the year and quantify those outputs 'to the extent practicable'. Based on the requirements in PBE SFR-A (NFP) (i.e. A41 (b), A42, A26, A10 and A27), we assessed whether the outputs were relevant and significant in illustrating the charity's service performance, whether the number of output measures was sufficient to reflect the activities of the charity and whether the description and quantification of outputs were understandable and comparable. When assessing outputs, the application of the phrase 'to the extent practicable' in practice was particularly considered. This was operationalised by determining whether the output measures were qualitative in nature and, thus, could not be quantified. For example, the outputs of a museum can be the themes and significances of exhibitions,<sup>17</sup> which are inherently qualitative.

**TABLE 12** Outcome issues in full scope assurance.

Outcome issues in full scope assurance	Expenses >500k and <1m	Expenses >1m and <2m	Total
Fine <sup>a</sup>	29	30	59
Outcomes are too broad	5	9	14
Identical mission and outcome	2	2	4
No outcome reported	0	2	2

<sup>a</sup>Fine means that a charity had disclosed both mission and outcomes, and the reported outcomes were not too broad or identical to the mission statement.

**EXHIBIT 2** R20 Statement of Service Performance 2021. [Colour figure can be viewed at [wileyonlinelibrary.com](http://wileyonlinelibrary.com)]



The Board measures performance according to certain indicators. These are listed below with reference given to the relevant sections in the Policy.

- 4.1 Clergy Allowance
- 4.2 Living Allowance
- 6.2/4 Support of Clergy in Retirement
- 5.2 Health Insurance
- 3.5 Annual Jubilee celebrations
- 3.6 Other Clergy Events
- 3.9 Other costs as approved by the Board

**EXHIBIT 3** E1 Statement of Service Performance 2021.

#### Entity's Purpose or Mission

For the advancement of education, the advancement of religion, the advancement of sport, and such other charitable purposes within New Zealand as the Trustees from time to time decide upon

#### Description of Entities Outcomes

The Trustees are satisfied that the Trust achieved its goals of assisting charitable activities, including assisting charities providing services to education, religion, sport and a number of welfare activities.

Therefore, we coded these naturally unquantifiable output measures as 'fine'. However, if the output measures could be quantified, but the charities failed to quantify them, or the quantification itself was unclear, we believed it was a quantification issue (examples are given below).

Table 13 shows that many charities had various output issues, including quantification issues, insufficiency, irrelevancy, inappropriate and insignificant outputs, a lack of clear descriptions and no comparatives. Out of the charities with no comparative outputs, none was newly registered or engaged in new activities and thus excused for failing to provide comparative outputs. Surprisingly, the charities with expenses greater than \$500,000 outperformed their larger counterparts. The lower expense charities appeared to be more capable of designing relevant, appropriate and significant output measures. Their quantification issues were also fewer

compared to the higher-expense charities. In contrast, the charities with expenses greater than \$1 million presented various outputs issues, including 11 incidents<sup>18</sup> of irrelevant, inappropriate or insignificant outputs and 10 incidents of poor quantification of outputs. Charities from both expense groups show similar numbers of incidents for the other two output issues concerning insufficient numbers of outputs and unclearly described outputs.

To illustrate the issues associated with outputs, Exhibit 4 presents an extract of education charity E9's Statement of Service Performance as an example of inappropriate outputs that were poorly described and quantified. The charity provided various educational programmes, but only two output measures were disclosed, which failed to represent 'what the charity did' during the reporting period. The descriptions and quantifications of both measures were unclear. For example, the output measure 'participant days' failed

**TABLE 13** Outputs issues.

Output issues	Expenses >500k and <1m	Expenses >1m and <2m	Total
Fine	20	18	38
Quantification (failed to quantify outputs or quantification is unclear)	5	10	15
Insufficient number of outputs	7	6	13
Irrelevant, inappropriate or insignificant outputs	1	11	12
Unclear description	3	3	6
No outputs comparatives	3	2	5

**Description of Entity's Outcomes**

Mission: To achieve positive change in individuals and communities.

The opportunities provided included

- programmes for individuals and groups from disadvantaged backgrounds
- camps for school aged participants
- trades academies
- programmes designed for school age students
- corporate programmes
- tailored programmes designed to get people in the outdoors

**EXHIBIT 4** E9 Statement of Service Performance 2020.

	2020	2019
<b>Description and Quantification of the Entity's Outputs</b>		
Participant Days	11,500	11,383
Approximate individual student participation	2,737	2,800
<hr/>		
<b>Course Delivery Costs</b>		
Course Delivery Expenses	71,663	150,844
Course Food Expense	52,504	77,262
Travel & Accommodation	1,874	18,798
Wages & Salaries	1,311,350	1,091,957
<b>Total Course Delivery Costs</b>	<b>1,437,391</b>	<b>1,338,861</b>

to communicate whether it was referring to the total number of days participants were involved in one programme or different programmes. To reach 11,500 participant days in a reporting year, the charity needed to run at least one programme with 32 people daily, including public holidays and during the COVID lockdown period in NZ, which seems unrealistic. Similarly, it is unclear whether 'approximate individual student participation' referred to the number of days or hours or something else. More meaningful and suitable measures could have been the number of programmes based on their outcomes (e.g. programmes for disadvantaged individuals or school-aged students) and the number of attendees for each programme. Furthermore, the 'Course Delivery Costs' in its Statement of Service Performance did not suitably represent its service performance and were duplicated with information in the financial statements. The poorly designed and described outputs would have created confusion and different interpretations for the users of the statement, but the auditor seemed to consider all these issues immaterial and provided an unqualified opinion.

It was observed that poor efforts were made by some charities to disclose sufficient, significant and quantifiable outputs. This example relates to unquantified outputs and inconsistencies in the claims

reported in the Statement of Service Performance of a special character early childcare centre for the financial year ended 31 December 2019 (Exhibit 5). The charity listed five goals established in 2015/2016, which had not been changed since the 2017 performance report until the recent 2021 report. The charity has specified 'all goals have been achieved as planned' in each year's Statement of Service Performance since 2017. Although the first outcome could not be quantified, outputs related to the middle three goals could be practically quantified to support the claims that goals had been achieved. However, there was no ratio of qualified teachers to the total number of teachers to show that the charity had 'maintained or increased the number of registered teachers' (Exhibit 5). The proportions of the hours taught by qualified teachers were relevant to this goal, but the proportion taught by qualified teachers decreased from 2018 to 2019 for both centres,<sup>19</sup> which suggests this goal was not achieved. Furthermore, no output showed the number of marketing materials or efforts made towards non-Muslim families or the percentage of children from non-Muslim backgrounds attending the centre. There were no outputs about the amount of new equipment bought or upgraded. The charity had used the same local auditor since 2017. The auditor seemed to believe it was immaterial for the charity to 1)

## For the year ended 31 December 2019

### Description of Entity's Outcomes

The [REDACTED] strategic plan for 2015/2016 incorporated the following goals:

- To maintain consistency in standard of programme delivery.
  - To maintain/increase the number of registered staff holding a Diploma of Teaching (Early childhood) or equivalent
  - Marketing centres towards and increasing the participation of non-Muslim families.
  - Updating of resources which included the purchasing new equipment and upgrading of existing equipment.
  - Move the [REDACTED] Centre to a new building by late-2016/early-2017.
- All goals have been achieved as planned.

### Description and Quantification of the Entity's Outputs

Account	Christchurch 2019	Christchurch 2018	Dunedin 2019	Dunedin 2018
Daily roll capacity	38	38	38	38
Children hours per year - under 2	5,732	5,517	2,318	4,580
Children hours per year - over 2	11,358	7,145	7,114	9,763
Children hours per year - 20 + 10 Hours FCH	22,784	22,050	13,273	23,079
Funded Child Hours (FCH) - Total	39,874	34,712	22,705	37,422
ECE Registered Teachers Hours	3,849	4,168	2,280	3,402
ECE Non-Registered Teachers Hours	1,536	923	1,042	1,214
Teachers Hours - Total	5,385	5,091	3,322	4,616

### Description and Quantification of the Entity's Outputs

[REDACTED] delivered quality ECE programmes in Christchurch and Dunedin centres, rated by ERO as "Well Placed" with Islamic based as special character but open for all kids.

#### EXHIBIT 5 E5-13 Statement of Service Performance 2019.

claim that it achieved the goals despite outputs showing inconsistency with the achievement and 2) omission of quantifiable outputs to support the outcomes.

Another example relates to the appropriateness and omission of significant outputs. Exhibit 6 illustrates an Early Child Education centre<sup>20</sup> that disclosed outputs following its outcomes. Although 'the amount spent on professional development' (Exhibit 6) to train staff was relevant and was also recorded in its financial information, the amount spent was inappropriate service performance information in terms of achieving Outcome 1. The charity could have disclosed the number of staff who attended professional development, the hours or number of sessions attended and the impact of the training (e.g. improving skills or certification awarded). Furthermore, although the annual Matariki (Māori new year) evening was relevant to Outcome 3, the charity could have provided some quantified measures, such as the number of families that attended or the different ethnicities of attendees, to indicate 'involvement with the wider community' (Exhibit 6). The charity also could have disclosed the number of other events they held in their centre, such as a Christmas party. Furthermore, given that the charity was a childcare centre, the number of children attending the centre should be a significant output to be disclosed. Despite the problems of designing and quantifying significant

outputs, the auditor still indicated that the outputs were suitable and did not perceive that the omission of significant and appropriate output measures was material.

The last example concerns the practicality of quantifying output measures that charities chose to disclose. R19 was a church that also used its facilities as a community centre. Exhibit 7 shows an extract of its 2020 Statement of Service Performance. The charity disclosed a number of efficiency and effectiveness outputs that were relevant, significant and sufficient to achieve its reported outcome. The usage of the centre was quantified, but some measures related to the effectiveness of participating in the community, such as 'gaining confidence in English', 'learning new skills' and 'contributing their experience, skills and knowledge' (Exhibit 8) were much less quantifiable. These measures fell within the phrase 'to the extent practicable', which reflects an inherent issue in quantifying effectiveness measures.

The above examples illustrate differences in the depth and breadth of performance measures. Some charities could have done more but did not, and a few made better attempts. In sum, although almost half of the sample charities' service performance information was acceptable, the findings identified several issues related to outcomes and outputs, and auditors unanimously gave an unmodified

# Statement of Service Performance

For the year ended 31 July 2018

Our main goal was to have a positive impact on all the children that attend our ECE Centre and to provide quality education. The Trustees believe we have achieved this.

## Entity's Outcome 1

To empower staff with professional development.

	2018	2017
<b>Description and Quantification of the Entity's Outputs</b>		
Amount spent on professional development	18,712	14,616

## Entity's Outcome 2

To increase number of qualified staff. During the 2018 year we actively worked to provide training and advance the qualifications of our unqualified staff. This is reflected in the amount spent on professional development during the year.

	2018	2017
<b>Description and Quantification of the Entity's Outputs</b>		
Qualified staff members	7	6

## Entity's Outcome 3

To increase involvement with the wider community.

**Output:** To do this, we hosted our annual Matariki evening and invited the wider community to celebrate.

**EXHIBIT 6** E5-16 Statement of Service Performance 2018.

## COMMUNITY CENTRE

### Desired Outcomes for the Centre are:

To be a focal point for community activities in the [redacted] Auckland City, providing a quality facility for their use through programmes and the use of facilities for social interaction.

### Achieved Outputs for the Centre are:

Annual visitors/users/participants (approx.) 49,627 90,408

This is in line with our work plans approved by Auckland Council and our own goals and values as an entity of Church and Community Centre.

#### Output measures are:

- increase in number of users - both casual and regular attendants at long-term programmes.
- increase in the level of engagement by migrants
- gaining confidence in English
- learning new skills
- the level of networking and socialisation with longer term residents
- contributing their experience, skills and knowledge
- enabling some to find employment

Number of programmes per week	127	132
One-off bookings/month	4	21

**EXHIBIT 7** R19 Statement of Service Performance 2020.

opinion. Auditors tolerated issues including omitted and unclear outcomes, omissions of comparative outputs, and irrelevant, insignificant and unclear output measures. However, in our view, these issues affected the relevance, understandability and comparability of reported outcomes and outputs and were unlikely to meet the users' information needs.

## 5 | DISCUSSION AND CONCLUSION

This research investigated assurance practices and challenges related to service performance information disclosed by small charities. The research found that small charities showed a high level of compliance with mandatory service performance reporting and assurance



requirements. However, these charities made varied efforts to report service performance, ranging from clear performance measures aligned with specific outcomes to vague outcomes with insignificant, irrelevant and insufficient outputs. Regardless of good or poor reporting, auditors/reviewers seemed reluctant to issue qualified reports unless for financial reasons. It appears that auditors were stringent on the accuracy of financials, but they were highly tolerant of issues related to service performance information. The materiality of service performance information was much higher than financial information. For example, despite many charities receiving modifications because auditors could not verify the completeness of cash donations,<sup>21</sup> the 'completeness' of output measures (analysed by 'insufficient numbers of outputs') or the omission of reporting elements in the performance reports (analysed by the omission of comparatives or outcomes) did not result in any modification. Some auditors even gave unmodified opinions on service performance using assurance standards only related to financial information. Therefore, the usefulness of service performance reporting was questionable, and the value of service performance assurance was limited. We infer two interrelated reasons for this and explain the study's contributions to the literature.

First, due to the highly subjective nature of determining what to report, the requirements on the depth and breadth of service performance disclosure are flexible, and auditors have limited means to verify whether the reported performance measures are complete. The phrase 'to the extent practicable' allows charities and auditors to legitimately justify the limited quantifiable outputs disclosed, which, unfortunately, results in a minimum level of disclosure from some charities to reduce assurance costs and avoid potential scrutiny from stakeholders. This reduces the likelihood that charities and auditors appreciate or realise the benefits of service performance assurance. Furthermore, 'sufficient and appropriate evidence' of service performance is difficult to obtain owing to the qualitative nature of measures (e.g. improvement of skills or wellbeing). Even some quantified output measures are challenging to verify. For example, an auditor struggled to verify whether the number of food parcels was indeed delivered to genuine beneficiaries of the charity. This study sheds light on the challenges associated with service performance assurance of small charities, which are mainly related to subjectivity, auditability and materiality when verifying this service performance information.

Second, a minimum level of disclosure and high tolerance towards service performance information may reflect a compliance mindset by both auditors and preparers. From charities' perspective, their service performance meets the regulatory requirements, but there is little motivation to use service performance reporting to 'tell their story' to wider stakeholders. Some charities do not even publicly disclose their assurance reports, which show that they may not need assurance to signal good performance and attract donations. From the auditors' perspective, they seem to be sympathetic towards charities' reporting pressure and focus more on the forms of the service performance information rather than the substance. This may be because of an understanding that charities lack the expertise to design a

comprehensive system to capture performance measures and frame strategies and activities for disclosure in their performance reports, despite actually doing good work for beneficiaries and members.

These findings extend prior literature on the financial assurance of small charities (e.g. Kemp & Morgan, 2019; Morgan, 2011) by providing insights into service performance assurance practices drawing on a unique context of the NZ mandatory assurance requirements on small charities. Contrary to the increasing calls for charity performance accountability (Connolly et al., 2018; Yang & Northcott, 2019) and regulation on performance reporting and assurance (McConville & Cordery, 2019), our study reveals that service performance reporting and assurance appear peripheral and are possibly perceived less valuable compared to financial assurance by both small charities and assurance practitioners. This may be because small charities' trustees are primarily concerned with audited financial statements, which they perceive as bringing legitimacy to their charities (Connolly & Hyndman, 2013b; Thompson & Morgan, 2020).

The findings offered in this study are an initial step toward understanding the assurance of service performance information and provide empirical evidence for the challenges identified by the IAASB (2016) and extend them to the context of the charity sector. This study indicates that the challenges of subjectivity in reporting scope, auditability and suitability of performance measures may reduce auditors' scrutiny of service performance information, resulting in a norm of issuing an unmodified opinion. Although we do not know the auditors' rationale for determining materiality based on the content analysis, the high materiality appears to suggest a narrow and traditional view focused on the accuracy of the reported information and its financial implications (Edgley et al., 2015; O'Dwyer & Owen, 2005). Thus, the study extends the prior observations of materiality in sustainability assurance in the private sector to charity service performance assurance. This highlights a potential need for further education of auditors to consider a wider stakeholders' perspective when determining materiality. Moreover, our study extends prior literature on small charities' service performance reporting (e.g. Hooks & Stent, 2019) by highlighting the difficulties of verifying outputs and outcomes and a compliance mindset largely constrained small charities to value the benefits of performance reporting and assurance. The reluctance to service performance reporting and assurance could result from charities perceiving that their accountability to funders and donors is not well discharged via mandatory reporting. As Yang and Northcott (2019) noted, charity accountability can be discharged in various ways. For small charities, informal disclosure mechanisms via face-to-face conversations could be valued higher compared to formal annual reporting and assurance.

To our knowledge, this paper is the first attempt to explore non-financial service performance assurance practices in the charity sector, which is a highly under-researched field (Hooks & Stent, 2019; XRB, 2019b). The research is particularly timely given the recent statutory audit requirements for service performance information prepared by large NZ charities which commenced in 2023. Since NZ Tier 3 charities are a pioneer in service performance assurance, the

issues found with the assurance practices of Tier 3 charities may be useful for charity auditors, preparers, regulators and accounting standard setters. Charities in other countries, such as the UK and Australia, may also find NZ's service performance assurance experience useful to shed light on their regulation and policies for small charities.

The research has implications for practice. To make service performance reporting more desirable for charities, small charities' key stakeholders, including regulators and funders, could work more collaboratively to promote performance reporting further and connect charities' reporting benefits with their internal management and governance practices and improvement for future service delivery. It can also be helpful for charities to reflect on and consider potential improvements in their performance. Although some funders require specific reports and monitoring mechanisms to meet their information needs (XRB, 2019b), assurance of well-presented and informative service performance reporting is still valuable for attracting volunteers and donors and marketing charities' services to communities. Thus, it may increase charities' social capital and reputation. Assurance practitioners should adopt a broader view of materiality by considering stakeholders' perspectives and consider the omissions of significant service performance information rather than merely focusing on the accuracy of *reported* output measures and financial information. Nonetheless, balancing the costs and benefits of reporting and assurance is challenging.

There are limitations to the research, which can be seen as a future research agenda. Firstly, this research is based on a content analysis of 120 charities' performance reports and annual returns from the three largest sectors (Education, Religion and Arts) in its analysis and the findings may not be generalisable to other sectors in NZ and charities in other jurisdictions. The sampling was purposefully targeting both ends of the expenditure spectrum rather than randomised. The discussions were based on inferences and the extant literature but did not take into account any views and experiences from the charity preparers and assurance practitioners in terms of how and why they prepared and assured service performance information. Future research could use interview-based methods and/or an in-depth case study to further explore the issues identified in this paper. For instance, how do assurance practitioners determine materiality and what are the potential reasons for such determinations? What are the difficulties of assuring non-financial service information? How has auditability of service performance information been dealt with in practice? How do charities select their auditors and what type of auditors do they prefer? Secondly, it is assumed that small charities are accountable to the general public and use their performance reports to discharge accountability. More research is needed to understand further the relationships between small charities' reporting, assurance and accountability. For example, what is the perceived significance of reporting and assuring service performance information from multiple perspectives, including small charities, assurance practitioners and users of performance reports? What is the role of service performance reporting in discharging small charities' accountability? How do they differ from large charities?

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## CONFLICT OF INTEREST STATEMENT

We are not aware of any conflict of interests involved with this submission.

## DATA AVAILABILITY STATEMENT

Data are available on request from the authors.

## ETHICS STATEMENT

Ethical approval is not applicable to this research because the collected data are publicly available.

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## ENDNOTES

- <sup>1</sup> For the audit or review of financial information, the applicable assurance standards are ISAs (NZ) or ISREs (NZ), respectively.
- <sup>2</sup> Tier 1 and Tier 2 charities' financial statements must also be audited, but the requirements for their service performance assurance are only effective from 1 January 2023. At the time of study, Tier 1 and Tier 2 charities did not have to meet service performance assurance requirements unless they were early adopters.
- <sup>3</sup> For those charities that provided insufficient or ambiguous information on their performance reports and annual return summaries, a search on their websites for further information or clarifications was carried out to identify relevant information.
- <sup>4</sup> Some Tier 3 charities did not file their reports in a timely manner; therefore, some reports were from the years ending 2019 or 2020.
- <sup>5</sup> The 19 sectors are Accommodation/housing, Arts/culture/heritage, Care/protection of animals, Community development, Economic development, Education/training/research, Emergency/disaster relief, Employment, Environment/conservation, Fundraising, Health, International activities, Marae on reservation land, People with disabilities, Promotion of volunteering, Religious activities, Social services, Sport/recreation, others.
- <sup>6</sup> Some charity assurance research has excluded Religious activities and Education from the sample selection (e.g., Yang & Simnett, 2020; Yetman & Yetman, 2013) since these sectors have reporting exceptions in their jurisdictions. However, NZ has a unique context where all registered charities with an annual expenditure greater than NZ \$500,000 and less than NZ\$2 million must comply with service performance assurance requirements. Therefore, both Religious activities and Education were included in the sample selection, which will provide unique insights into this area.
- <sup>7</sup> Those charities that are members of a group submit consolidated rather than individual performance reports.
- <sup>8</sup> Each charity needs to file an annual return summary. In the summary, there is a section titled 'Audit & Review'. The section asks the charity to specify whether they are subject to the statutory assurance requirement and whether they conducted an audit or review and whether they received a modified opinion.
- <sup>9</sup> When charities conducted an audit or review but did not disclose their audit or review report, their annual return filings were checked to

identify their auditors. In total auditors were identified for 108 charities, whereas 12 charities did not disclose the name of their assurance practitioners.

- 10 Out of the 12 charities which only assured financial information, three charities (all in the category of expenses greater than \$1 million) had not prepared a statement of service performance.
- 11 We have checked these charities' annual return filings, with 20/28 claiming that their performance reports were assured and none of them received a modified opinion other than on the basis of cash donations. However, they decided not to make the assurance report publicly available. It was assumed that the charity services would have verified their claim. However, it was not possible to determine the scope of assurance without sighting the assurance report. The service performance information for these charities was also checked and except for one charity, all other charities provided their statement of service performance.
- 12 The one charity in expense between one and two million did a review instead of an audit was because the charity changed to Tier 3 from Tier 4 as a result of a jump in expense in a financial year.
- 13 The constitutions or founding documents of a charity could be standard legal documents with built-in assurance requirements.
- 14 Charities which did not disclose an assurance report were excluded; while they indicated that they performed an audit or review on their annual return summaries, there is no indication of the type of opinion/conclusion they received.
- 15 To conduct assurance on the full scope of a performance report, two different sets of standards must be used: standards concerned with assurance of historical financial information, such as ISAs (NZ) or ISRE (NZ) 2400, and standards related to service performance information, such as ISAE (NZ) 3000 or NZAS 1.
- 16 The 12 charities that had assurance on financial information only and the 28 charities that failed to disclose an audit or review report were excluded. For the remaining 80 charities that had the full scope, the charity that received a modified opinion on service performance information mentioned above was excluded since the auditor had already identified some outputs were not verifiable.
- 17 One of the Museum charities disclosed the title and themes of their exhibition as outputs. An example in its 2021 Statement of Service Performance was 'Accretions of History: ANZAC's in Taji, Iraq. This exhibition from Australia features the artworks of Captain Julian Thompson. Julian, an army radiographer, was deployed with the combined Australian and New Zealand Task Group Taji-4 and Jaji-10 at the Taji Military Complex in Iraq and operated the x-ray capability for Coalition forces as well as captured, through paintings, and activities of the ANZACS in Taji'.
- 18 Some charities may have had one or multiple issues with their outputs. For example, a charity may have disclosed an insufficient number of outputs and the disclosed outputs were also poorly described or irrelevant.
- 19 In 2019, the proportion of hours taught by registered teachers in the Christchurch branch decreased from 82% to 71% and from 74% to 69% in the Dunedin branch. The proportion of hours taught by registered teachers deteriorated further in the 2021 reports (61% in Christchurch and 55% in Dunedin). The charity still claimed that all goals had been achieved, and the auditor gave an unmodified opinion.
- 20 At the time of data collection, the most recent annual filing was the charity's 2018 Performance Report.
- 21 Auditors needed to verify a number of assertions such as occurrence, accuracy and completeness of cash donations. They normally had evidence to approve occurrence and accuracy but sometimes could not verify completeness because of insufficient controls employed by small charities when collecting these donations.

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Friday, 29 August 2025

Wendy Venter FCA  
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](mailto: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 unaware that 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.<sup>1</sup> 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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<sup>1</sup> 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.<sup>2</sup> 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.

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<sup>2</sup> 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-donnee 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.



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External Reporting Board  
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28 August 2025

To Whom it may concern

## Feedback on Reporting and Assurance of Service Performance Information

KPMG welcomes the opportunity to provide comments on the Consultation paper issued in June 2025 on Reporting and Assurance of Service Performance Information for Tier 1 and 2 not-for-profit entities.

Our comments to the questions you seek comment on from assurance practitioners are included below.

### Question 1: Do you agree that the root causes described above are contributing to the key challenges in preparing and assuring service performance information?

Root cause identified by XRB	KPMG comment
Lack of clarity over reporting	<ul style="list-style-type: none"> <li>- Due to the lack of consistency in the Statement of Service Performance (SSP) between similar entities, comparisons between such entities are difficult. We understand that entities need to be able to “tell their own story”, however, the lack of prescribed structure for a primary statement tends to negate this.</li> <li>- We often have entities who would like to report on information which goes beyond ‘their measure’. For example, wanting to report “having provided homes for 30 people” when the organisation itself simply provided a grant to another entity that then provided the homes to the 30 people. Clarity around the boundary for testing would be useful.</li> </ul>
Differences between the public sector and not-for-profit sectors	<ul style="list-style-type: none"> <li>- We understand that the OAG have issued guidance on how to audit service performance information for</li> </ul>



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	<p>public sector entities (<i>2024/25 Guidelines for the audit of service performance information prepared by Crown Entities and Government Departments</i>). We would encourage the XRB to engage with the OAG to also consider whether additional guidance is required to be incorporated into the standard in respect of Public Sector entities.</p> <ul style="list-style-type: none"> <li>- We have noted a divergence in views between practitioners and the OAG. Our experience of working on OAG audits, has indicated that the OAG interprets paragraph 19(c) of PBE FRS 48 more broadly than we do on the logic that the public service is all part of a larger entity and therefore in certain situations the delivery of goods and services can be recorded in the SSP of entities which only provide funding for the goods and services.</li> </ul>
Maturity in service performance reporting.	<ul style="list-style-type: none"> <li>- We agree that many entities are still embedding processes and controls that will enable better service performance reporting. Our experience to date has shown us that management does not always accord the SSP as having the same gravitas as the other primary financial statements. Our perception is that in many cases the SSP is seen by entities as a compliance exercise only.</li> <li>- Previous discussions with the XRB Staff regarding entities development of their SSP has led us to understand that entities would have time to develop and evolve their SSP metrics and reporting. Hence, we have treated clients' improvements to their SSP as part of the journey to date. However, when is this "journey" deemed to be complete?</li> </ul>
Verification challenges	<ul style="list-style-type: none"> <li>- The XRB has noted that entities find it hard to understand how much evidence assurance practitioners need, and this can also be said for assurance practitioners. What is</li> </ul>





	<p>sufficient appropriate audit evidence for non-financial measures (that often only have an internal source of verification) is a very real challenge for auditors. Further to this, it is often difficult to explain to clients what sufficient appropriate audit evidence is.</p>
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### Do you have any other feedback on the challenges?

We often have entities wanting to include ESG measures in their SSP's which presents various challenges from an assurance perspective including:

- Difficulties in discussions with management as to whether the measure is 'appropriate and meaningful' and should be included as a measure in their SSP. Whilst these measures are not usually linked to the purpose of the entity, they are an area that the entity does want to present often due to the increased focus on ESG measures by the general public.
- These measures are being included in SSPs when management don't have the knowledge and capability to be able to measure them – these are not climate reporting entities.
- The boundaries of the measures are generally unclear i.e. when entities report an intensity that is their total emissions over revenue, they generally haven't considered their operational boundary for emissions.
- Consideration needs to be given as to how the ESG metrics are being measured i.e for GHG measures are these under the GHG Protocol as for us to be able to audit them there needs to be a criteria.
- Whether we can provide reasonable assurance under NZ AS 1 Revised over these measures. Auditing these measures is a big exercise in itself – should these really be included in SSPs or should they be presented and assured over separately?

Our firm has invested a considerable amount of time and resources into creating templates, workpapers and training for service performance reporting. We went through a process in 2024 to make changes to these resources because of the revision to NZ AS 1 and anticipate that we will be required to do so again depending upon the outcomes of this consultation and any amendments to PBE FRS 48. We understand that a post implementation review has not yet been performed over NZ AS 1 Revised, however we encourage the XRB to make any required amendments to NZ AS 1 Revised at the same time as PBE FRS 48. This would enable a more efficient and less costly update to existing resources for assurance practitioners.

### Question 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?

In our view, the issues with PBE FRS 48 are not so much its requirements, but the lack of available detailed guidance and examples to assist practitioners and preparers as to how to apply the standard as envisaged by the NZ ASB. We note the examples on the XRB guidance documents date back to 2021/2022 and need to be updated to provide more useful and sophisticated guidance.

At face value the standard does not appear difficult to apply, but we have found that clients experience difficulties in selecting appropriate metrics, understanding the requirements for comparatives and making changes to reporting metrics in successive years. A particular issue is



when a client decides to radically change the SSP including the metrics and does not understand the potential impact to the audit report, that is, changing the SSP may indicate incorrect metrics were selected, resulting in a prior period error and an impact on the audit report.

Additional costs will likely be incurred on applying new guidance, but this will mitigate future costs as when the standard is applied properly, and an appropriate mix of measures selected, it will be easier to audit and the potential for current year and prior year errors is much reduced.

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

We think that the proposed targeted amendments will assist entities with improving their service performance reporting. One of the reasons entities have struggled to produce robust service performance reports is that the Basis of Preparation requirements have not been well understood, and neither have the disclosure requirements pertaining to significant judgements and material decisions regarding the selection of performance metrics. More clarification around these requirements would strengthen the actual preparation and disclosure elements of the SSP.

In our view it would be beneficial to mandate the Basis of Preparation of the SSP to be sited in the SSP rather than with the financial statements Basis of Preparation, to ensure readers will at least see if not read the SSP Basis of Preparation.

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

We agree that adding an authoritative appendix to PBE FRS 48 will assist not-for-profit entities, particularly those that are smaller and have less available time and budget to set up a comprehensive performance framework. Such an appendix would result in more robust service performance information being provided to readers, particularly if the appendix includes the topics listed in the XRB Consultation Paper, being

- Steps for developing a performance framework
- Linking reporting activities within the confines of an annual reporting period, and
- Selecting appropriate measures and considering contractual funding agreements.

However, we are concerned that existing entities with embedded SSPs will not take the opportunity to incorporate any new guidance or requirements due to the lack of importance assigned to the SSP as a primary statement.

**Question 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.**

Please refer to our response to question 4.

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

We agree that both obtaining and making a judgement call on what is sufficient appropriate audit evidence is one of the biggest challenges that we as assurance practitioners face when auditing service performance information. Therefore, guidance material on what is sufficient appropriate



evidence for practitioners and preparers would be welcomed. To be of most use we would suggest this guidance covers numerous examples including:

- where the only source of information to support the measure is internal (such as sign in sheets for events held or manual logs of goods/services provided);
- where external parties are engaged to provide information (such as surveys); and
- where the entity does not have controls we can rely on.

The guidance should also provide enough detail on how to assess the relevance and reliability of information used as audit evidence, for example what the assurance practitioner should consider when the entity engages a third party to perform a survey. It would also be helpful if the guidance contained examples of what isn't considered sufficient appropriate audit evidence and what the resulting implications on the audit are; for example when can these be removed from SSP but located elsewhere in the report if the client wishes to continue to present them.

We agree that guidance for the application of materiality (in regard to both determining whether a metric is material and actually establishing a materiality/tolerance for misstatement), considerations when assessing internal controls over service performance information and sampling guidance would be useful and would tangibly assist our audit teams.

It is often hard for us to apply our firm's methodology, which is based on the ISAs, to the non-financial information included in a SSP. For example, our methodology provides guidelines for setting materiality for financial information but does not provide guidance for setting materiality for non-financial information. This lack of guidance contributes to difficulties in the application of various requirements including setting materiality, sampling and evaluation of audit evidence (as discussed above).

**Question 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?**

Yes, we agree some amendments and guidance would help. Further to our previous comment regarding aligning the timing of any amendments to PBE FRS 48 and NZ AS 1 Revised, we would strongly encourage the XRB to consider whether any of the guidance suggested through this consultation process would be better incorporated as amendments to NZ AS 1 Revised (released at the same time as amendments to PBE FRS 48) rather than guidance.

We are happy to discuss any of our feedback further if requested.

Yours sincerely

Darby Healey  
 Audit Quality Partner

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29 August 2025

John Kensington  
 Chair, External Reporting Board  
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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](mailto:tiffany.tan@cpaaustralia.com.au) or Ram Subramanian, Financial Reporting Lead at [ram.subramanian@cpaaustralia.com.au](mailto:ram.subramanian@cpaaustralia.com.au).

Yours sincerely

**Elinor Kasapidis**  
 Chief of Policy, Standards and External Affairs  
 CPA Australia

## **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 mature, 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 adoption<sup>1</sup>. 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.

<sup>1</sup> 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 in 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.



## Te Tari Taiwhenua Internal Affairs

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29 August 2025

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

Charities Services is pleased to provide a submission to the External Reporting Board (the XRB) on the consultation paper regarding the reporting and assurance of service performance information for Tier 1 and 2 not-for-profit entities. We have taken the opportunity to provide general comments from our perspective as a user of service performance information.

Our primary purposes as the regulator of the charitable sector under the Charities Act 2005 are to promote public trust and confidence in the charitable sector; and encourage and promote the effective use of charitable resources. Charities Services' functions under the Act include supporting registered charities in meeting their obligations to submit financial statements that meet the appropriate accounting standards.

#### *Users of Service Performance Information*

We have considered the questions set out in Part 7 of the [consultation document](#) as users of service performance information.

#### *Question 9 How do you use service performance information to make decisions?*

Charities Services regularly reviews the service performance information as part of compliance checks, to ensure charities are meeting their reporting obligations, as well as a general sense check in relation to the information provided in the financial statements.

We also use the service performance information to get a broader understanding of each charity including what the charity considers to be their main purpose and how they have carried out their main activities to meet their objectives. This information helps Charities Services to gain a better understanding of how the charity operates, which assists us with our monitoring functions.

We make service performance information publicly available on the Charities Register. This enables transparency of the charity's activities for the public and is an important mechanism for increasing public trust and confidence in the charitable sector.

***Question 9 Do you face any challenges in understanding service performance information and what may be the cause of these challenges?***

Charities Services generally has not faced challenges in understanding service performance information reported by Tier 1 and 2 entities. However, we are concerned when an organisation receives a modified opinion – especially a disclaimer of opinion – in regard to service performance information.

The public may have challenges in understanding service performance information, especially when seeking to understand a charity's activities and when attempting to compare charities within the same sector, as the presentation of the information can vary widely. Modified audit opinions relating to service performance information may also cause confusion and concern for the public. Charities Services therefore supports targeted education and clarity for auditors and organisations as recommended in the consultation not only for our use, but to enhance public trust and confidence in the sector.

***Question 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?***

We consider the inclusion of a separate basis of preparation for this singular standard (PBE FRS 48) would be confusing, as this standard is already included as part of the Tier 1 or 2 basis of preparation. Instead, XRB could consider using more explicit language within PBE FRS 48 to clarify that the requirements under PBE IPSAS 1 apply to the reporting of service performance information.

Additional education regarding how the PBE FRS 48 standard fits into the current basis of preparation may also be appropriate, including prompts for preparers to consider the users of the information, selection of performance measures, and measurement techniques and approaches.

Charities Services does see value in the disclosure of significant judgements, and considers them to be helpful in understanding service performance information. We recommend providing examples to the sector of how these disclosures could be presented.

Thank you for the opportunity to comment.

Nga mihi,



**Charlotte Stanley**

Director – Charities Services | Ngā Ratonga Kaupapa Atawhai  
Regulatory and Identity Services  
Department of Internal Affairs Te Tari Taiwhenua

## NZASB Board meeting summary paper

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**Meeting date:** 8 October 2025

**Subject:** **Service Performance Information Consultation**

**Date:** 23 September 2025

**Prepared by:** Lisa Thomas and Nimash Bhikha

**Action Required**

**For Information Purposes Only**

### Agenda item objectives

1. The objective of this agenda item is to:
  - (a) Consider the feedback received in response to the service performance information consultation
  - (b) Explore next steps.

### Background

2. The XRB issued a [consultation paper](#) to confirm our understanding of challenges that Tier 1 and Tier 2 not-for-profit entities, auditors and users are experiencing with service performance information (SPI) and to seek feedback on potential actions to help address those challenges.
3. We held outreach sessions with Tier 1 and Tier 2 not-for-profit entities, funders, regulators and auditors which involved virtual and in-person sessions in June to August 2025. We note that the level of engagement from stakeholders (approximately 20 preparers/funders and 15 auditors) was relatively low compared to expectations. There was minimal feedback received from users however some users responded they would provide feedback through other umbrella organisations (like CA ANZ and CPA Australia). We received 9 [written submissions](#) from 2 academics, 3 preparers, 1 practitioner, CPA Australia, CA ANZ and Charities Services.
4. During this time, the assurance team have been developing staff guidance to support the application of NZ AS 1 (Revised), *The Audit of Service Performance Information*. We have been testing this guidance with various stakeholders, including at the in-person session held with auditors.
5. The NZASB will also meet in October to consider feedback and possible actions to address the challenges. An update will be provided to the XRB board at its October meeting. Assurance staff will attend the NZASB meeting and will consider any assurance implications.

## Matters to consider

6. The summary of feedback includes an overview of all matters explored on consultation, more of which relates to the accounting standard. Then we summarise the overall messages received on the question specific to assurance guidance.
7. Relevant feedback that forms the basis of the assurance guidance summary can be found in the “consultation assurance feedback comments” document.

Board members are asked whether they have any **FEEDBACK** on the summary.

8. The summary of feedback also covers what we heard on the draft staff guidance. Staff plan to publish the staff guidance, once all feedback from the assurance roundtable is incorporated. We will consider how to repurpose material developed about “delivering a good”, which focussed on internal controls, to address preparer concerns on what information should be retained to support SPI reported.
9. The NZASB meet on 9 October 2025 (day following the NZAuASB October meeting) to discuss the consultation feedback on the reporting of service performance information. Possible actions being considered, based on the feedback received, include:
  - i. Develop an Exposure Draft with proposed changes to the reporting standard.
  - ii. Bringing in some of the proposed targeted amendments to the reporting standard, but not an authoritative NFP appendix, and performing education in other areas.
  - iii. Make no changes to the reporting standard but focus on developing further guidance instead to explain the existing principles within the standard and let SPI reporting continue to mature.
  - iv. No action at this time.
10. If the NZASB agrees that guidance is a way forward, then we will consider developing joint guidance with the accounting team. This guidance could be based on existing information contained within [EG A10](#), and issued monthly by topic so that it can be referred to more frequently and delivered in smaller “digestible” pieces.
11. The guidance may cover the following areas:

1	Purpose and scope of service performance information
2	Core reporting requirements around service performance information
3	Principles and qualitative characteristics of service performance information
4	Deciding what service performance information to report
5	Linking service performance information to financial information
6	Disclosing service performance information judgements
7	Comparative service performance information
8	Preparing for assurance over service performance information
9	Presentation of service performance information
10	Continuous improvement around service performance reporting

12. Joint guidance could deal with key challenges in interactions between the preparer and auditor such as:

- (a) Why SPI is not a story telling mechanism but an accountability mechanism.
- (b) The process of determining appropriate and meaningful measures including governance involvement, materiality considerations, linking to strategic objectives, the pitfalls around reporting useful information outside of the SSP, considerations around user's needs, and a mix of qualitative and quantitative information.
- (c) Considerations and importance of data collection, internal controls and the verifiability of information for internal and external decision-making.
- (d) Key judgements necessary around SPI and how it is measured and disclosed.
- (e) Usefulness of performing a step-back holistic assessment to ensure SPI information is valuable and useful while also ensuring it is verifiable.

We seek **DIRECTION** from the Board about how to progress, given the feedback from the consultation, with a focus on assurance, while noting the interconnectivity with the discussions at the NZASB that will follow.

### Material presented

- Board meeting summary paper
- Summary of SPI feedback
- Consultation assurance feedback comments

## Service Performance Information Consultation: Overview of feedback received

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13. Below is a summary of feedback from the recent consultation on service performance information (SPI).

### Overall key messages

14. Feedback highlighted that reporting and assurance challenges stem from:
- (a) low maturity around service performance reporting processes and frameworks,
  - (b) limited financial, volunteer and time resources,
  - (c) underdeveloped systems and internal controls around SPI,
  - (d) differing expectations around the nature and role of SPI reporting.
15. We heard that challenges are improving over time, but sometimes entities and auditors still place greater emphasis on financial information and do not focus on SPI until the end of the reporting process. We also heard concerns raised by preparers that auditors often do not understand entities, and their objectives, beyond financial results, which adds to the challenges.
16. We heard that SPI often defaults to quantitative measures, even when qualitative descriptions could be more appropriate and meaningful. There were mixed views around the drivers for this, which ranged from entities not identifying and capturing data to adequately support qualitative measures, to auditors requesting that only quantitative measures that can be verified easily be included in SPI. In many cases, preparers highlighted that information which may be more difficult to verify was moved to areas of the annual report which were not subject to audit.
17. In many workshops, participants raised that SPI could be more valuable if it aligned to funders' information needs. Some preparers believed the SPI had limited use by funders or other stakeholders, who primarily rely on other channels for performance insights. We heard that SPI is sometimes seen as a supplementary information source and, as such, is not given sufficient time or attention by users or entities.
18. Concerns were raised by preparers that SPI reporting is a compliance exercise, diverting limited resources away from service delivery without any improvements in quality or decision-making. These preparers asked us to consider the value of SPI and whether this reporting should be removed, so entities can focus that money on bettering New Zealand.
19. In contrast, some preparers indicated the value of SPI and the ability to report on something other than financially focussed reporting. These entities highlighted their preference for practical, sector-specific guidance and examples, rather than premature and costly changes to reporting requirements.
20. Collaboration, tailored communication, and a shift in mindset from preparers, auditors, funders and other users are considered key to more effective SPI reporting for not-for-profit entities.



## Key themes across the areas within our consultation paper

### *Challenges and possible actions*

21. There was agreement that the root causes of the reporting and assurance challenges were due to:
  - (a) a lack of clarity over the purpose of service performance reporting,
  - (b) the maturity of service performance reporting, and
  - (c) verification challenges around qualitative information; including preparers being surprised at what information was needed to verify measures.
22. There were mixed views whether differences between the public and not-for-profit sectors was a direct cause to any of the challenges.
23. Some feedback noted that governance of the entity is not involved in determining what SPI to report, and entities rely upon their auditor to help ensure their reporting is appropriate. Stakeholders noted that, while entities have very limited resources, more governance involvement and commitment of time and resources is needed around reporting SPI, with a focus on identifying the right measures which are useful for internal and external decision-making and developing systems to help capture that information.
24. While this could be a costly exercise, once set up successfully, the preparation of SPI could be incorporated into internal reporting practices, which would enable regular monitoring and easier processes.

### *Potential amendments to PBE FRS 48 Service Performance Reporting*

25. There were mixed views whether the proposed amendments to the reporting standard would be beneficial overall. Auditors supported the proposals, (except for the proposal for an authoritative appendix just for not-for-profit entities) as the proposed amendments would clarify important matters and would help entities with their SPI reporting processes. Many preparers were concerned the proposals may create additional costs and the additional disclosures would be further information that needs to be discussed with auditors. Not-for-profit preparers generally preferred further guidance to help apply the existing reporting principles.
26. There were also strong views that amendments to the reporting standard should only be made where they would directly solve the root cause of the challenges. There were doubts that the proposed amendments would ultimately address the current challenges around the value and usability of SPI.

### *Potential reporting guidance*

27. Some stakeholders noted that the current guidance was clear and useful, while others were unaware that guidance existed. Most supported the need for further reporting guidance around how to identify and choose what information to report, in an efficient manner without creating additional costs. It was noted that entities use external quantitative measures, where possible, as they would be accepted by auditors.
28. There were calls for more examples of exemplar SPI and descriptions of evidence trails to help calibrate expectations around what information could be reported and what evidence should be retained.

*Users' considerations*

29. Many preparers questioned the value of SPI for users, noting that other forms of reporting around performance already occur through funding arrangements where tailored and timely information can be reported to funders. SPI within annual reports was considered to be supplementary and duplicative, and less valuable, even if it was independently assured. It was noted by preparers that personal trust and relationships are more important to funders for decision-making, rather than annual external reporting.
30. Other stakeholders, including regulators, noted that the SPI was useful and appropriate in its current state, but standardisation of SPI could potentially raise the general understanding of that information.

*Potential assurance guidance*

31. There was general agreement that guidance on the areas identified in the consultation (gathering sufficient appropriate evidence, the concept of materiality, assessing internal controls and practical approaches to sampling) would be useful. There was strong support for guidance around obtaining sufficient appropriate evidence particularly for qualitative disclosures and application of the concept of materiality in identifying important measures and tolerance for misstatement.
32. In obtaining sufficient appropriate evidence we heard challenges when sources of information were internally generated or couldn't be traced to financial information. In addition, guidance was sought for when service performance measures could not be verified and how this would impact the audit plan and outcome.
33. Other key themes we heard were:
  - A lack of maturity in assuring SPI. Preparers consider that auditors approach the audit of SPI as they would financial statements, and that they do not obtain the understanding of the entity needed to audit the SPI. Auditors consider that preparers do not place sufficient thought into the preparation of the SPI, and leave it to the end.
  - Auditors reported difficulty applying the wider ISAs (NZ) to the SPI.
  - Difficulty with judgements in determining what is appropriate and meaningful SPI.
  - A need to understand the audit implications when entities change the measures reported. The question was asked whether this is part of the evolution of service performance reporting or is it a prior period error.
  - Challenges associated with privacy issues over data. Whilst some respondents were comfortable with solutions on the sharing of sensitive data others sought guidance on balancing data protection and the need for verifiable information.

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| <p>(a)</p> <p>(b) Does the Board have any <b>FEEDBACK</b> on the SPI consultation paper feedback analysis?</p> <p>(c)</p> |
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## Draft guidance feedback

34. As part of the assurance practitioner roundtable, we did a “soft launch” of draft staff guidance on obtaining audit evidence (see appendix). This was to obtain feedback as to whether the guidance is practical, realistic and useful. This draft has also been discussed with regulators to inform its development. The roundtable participants represented firms of varying size and experience of auditing SPI.
35. The upfront key messages in the guidance were well received. The feedback however highlighted that whilst there is strong support for guidance, it is difficult to balance and reflect the professional judgement required in areas such as obtaining sufficient appropriate evidence, materiality and the assessment of appropriate and meaningful.
36. This was evident in the feedback on the first case study (assuring a qualitative description). There was a range of views as to what was the service performance measure (the 70% response rate i.e. a focus on the quantitative number, or the quote from the survey), and therefore what would be sufficient appropriate audit evidence to verify the extracted SPI.
37. The range of views reflected inconsistency in approach between auditors in auditing qualitative SPI. The mixture of views included:
  - i. that the quote was part of the service performance measure and can be verified. Some considered the guidance reflected the approach that may be taken in practice;
  - ii. that qualitative descriptions such as testimonials cannot provide faithful representation of the whole population unless it is supporting another service performance measure of fact by providing context;
  - iii. that the qualitative description would not be considered as part of the SPI and only the quantitative portion would be verified.
38. The participants noted that the guidance provided a practical approach for addressing statements included by the entity that may not be attributable to the entity or may lack supporting evidence.
39. The draft guidance we shared with stakeholders included a case study about the delivery of a good. Feedback received noted that the internal controls described in the case study were not reflective of the control environment that exists over SPI. The internal controls tested to obtain evidence did not reflect reality. There was some concern that illustrating a control environment which was described as “gold standard”, and not realistic may have the unintended consequence that the described level of controls is necessary to obtain sufficient appropriate audit evidence in the context provided. Similar feedback was reported by other stakeholders therefore we have deleted this case study. We will consider repurposing its content to address preparer concerns of evidence requirements above in paragraph 16.
40. Clarification was sought on the case study (attendance at an event) on the volume of testing done in one area. There were mixed views as to whether reporting numbers of attendees was appropriate and meaningful information, with some circumstances where it is likely to be.

Does the Board have any <b>FEEDBACK</b> on the comments received on the draft guidance?
---

Appendix

**DRAFT**

# Obtaining audit evidence over service performance information

Illustrative examples

Staff guidance

September 2025

WORKING DRAFT

**Status and disclaimer**

*This guidance is neither mandatory nor binding on entities. It does not have the force of law, nor does it amend, or provide any binding interpretation of External Reporting Board (XRB) standards. Only the Courts can make binding interpretations of XRB standards under the Financial Reporting Act 2013. Entities subject to XRB standards are not required to observe this guidance in order to comply with XRB standards. Nor does observance of this guidance necessarily mean compliance with XRB standards. XRB standards are the definitive statement of requirements. This guidance does not constitute advice. Entities subject to XRB standards must apply their own mind to the standards and take their own advice in considering and applying them. To the fullest extent permitted by law, the XRB disclaims and shall not be liable for any mistake or omission in this guidance, nor does the XRB accept any liability to any reader or user in relation to this guidance.*

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## Introduction

This non-authoritative staff guidance provides illustrative examples to support the practical implementation of the XRB's auditing standards when auditing service performance information. The examples focus on how the auditing standards might apply in practice to gather sufficient appropriate audit evidence to support the opinion expressed over reported service performance information.

### Guidance for auditors of service performance information

This guidance is aimed at auditors who audit service performance information that is reported in accordance with the XRB's financial reporting standards. NZ AS 1 (Revised) *The Audit of Service Performance Information* together with the full ISAs (NZ)<sup>1</sup>, set out the requirements to obtain reasonable assurance over service performance information.

Obtaining sufficient appropriate audit evidence is an iterative process and involves the following considerations:

- The risk of material misstatement, and the evidence needed to respond to those risks.
- The sources of evidence available, and how the sources affect the persuasiveness of the evidence and the nature of the procedures that may be performed.
- The purpose of a procedure and how that affects the nature, timing and extent of the procedures performed.
- The use of professional judgement and professional scepticism to evaluate the sufficiency and appropriateness of the evidence obtained.

Service performance information is an evolving and maturing area of reporting and assurance. Although auditing service performance in the public sector has been a requirement for years, it is a new area requiring assurance for many not-for-profit entities. The examples in this guidance are not intended to suggest either 'best practice' or the only way of addressing the matters set out in the examples; they are illustrative examples only. The examples are also not exhaustive as they include only a selection of procedures an auditor may perform in relation to the fact pattern set out.

The illustrative examples are:

- **Provision of a service:** obtaining audit evidence over qualitative information.
- **Attendance at an event:** obtaining audit evidence for attendance at an event including relevance and reliability of evidence and sources of evidence.

Each illustrative example sets out the circumstances of the situation. This is followed by some key considerations for how the auditor may obtain sufficient appropriate audit evidence in these circumstances.

If you have any feedback on this draft guidance please contact us at [assurance@xrb.govt.nz](mailto:assurance@xrb.govt.nz).

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<sup>1</sup> International Standards on Auditing (New Zealand)

## Key messages for auditors



### Engage early

Engage early with management to determine whether the entity's service performance reporting process provides a reasonable basis for the reported service performance information (or information intended to be reported).



### Focus on what is important to users

Focus on obtaining evidence over the significant elements/aspects of service performance that are important to users and, and the related material service performance measures/descriptions. It may not be necessary to obtain evidence on every service performance measure.



### Look for different sources of audit evidence

Look for different sources of audit evidence for service performance information and think beyond the systems and processes that support financial information.



### Document significant judgements

Auditing service performance information involves significant professional judgements. Document significant judgements along with the nature, timing and extent of audit procedures performed.



### Understand the entity

Obtain a good understanding of the entity (why the entity exists, what it intends to achieve and what activities or services the entity performs) and its service performance reporting process.



### Risk assessment is key

Use the assertions and inherent risk factors to help identify and assess risks of material misstatement.

“What is sufficient appropriate evidence?” needs to be considered in the context of assessed risks and the audit approach to mitigate those risks.



### Consider how qualitative statements can be verified

It is possible to assure qualitative information that is factual, directly observable or otherwise able to be subjected to evidence gathering procedures. Break up long pieces of text and focus on obtaining evidence of the facts that are most important to users.



### Apply professional judgement and professional scepticism

Consider all available sources of evidence, the persuasiveness of evidence and the nature of the procedures that can be performed to determine what is sufficient appropriate evidence.



## Illustrative Example 1: Provision of a service (qualitative)

### Background

An entity has an objective to enhance primary health care by expanding healthcare accessibility to communities.

It intends to:

1. Reduce travel-related barriers for patients by offering virtual consultations.
2. Support timely interventions for minor or follow-up consultations virtually, thereby easing pressure on physical clinics.
3. Facilitate continuity of care through online follow-ups, allowing clinicians to monitor patient progress without requiring on-site appointments.

### Draft Statement of Service Performance extract :

#### *Digital health services*

*At the start of the reporting period, we launched digital health services to enhance access to timely health care. This service offers access to general practitioners, nursing, and advice afterhours for individuals residing in or visiting rural areas.*

*We engaged a third party to conduct a survey of the patients who used the digital service to obtain feedback about their experience. 70% of the patients were satisfied with the service provided. For further information on how the survey was compiled and conducted, and for detailed quantitative results, go to table 1 on page x.*

*Mere, a satisfied user of the service shared her experience with us:*

*"With not being able to drive, previously I had to rely on family and friends being available to take me to my GP appointments. With the digital health service," Mere explains, "I am able to talk to a doctor in a timely manner before my symptoms worsen, giving me peace of mind. I have also used the digital health service to follow-up in person consultations which has made managing my chronic condition easier".*

*Having more regular contact with health professionals to monitor her chronic condition, Mere has shown significant improvement.*

*The story of Mere highlights how the digital health service improves accessibility to health care for communities.*

### Auditor's work to date



#### Understand the entity

The auditor obtained an understanding of the entity (why the entity exists, what it intends to achieve and what activities or services the entity performs), the applicable legal and regulatory framework, and the service performance information process<sup>2</sup>.



#### Focus on what is important to users

The auditor used their understanding, in combination with other planning procedures, to evaluate<sup>3</sup> management's assessment of what aspects of service performance, performance measures and measurement bases to report on. The auditor agreed that the entity's new digital health service is a significant aspect of the entity's service performance because it significantly contributes to the entity's core purpose and objectives. The auditor determined materiality for service performance information. The auditor considered the description related to the new digital health service to be material.

<sup>2</sup> See New Zealand Auditing Standard 1 (Revised) *The Audit of Service Performance Information* (NZ AS 1), paragraphs 15-18.

<sup>3</sup> NZ AS 1 paragraph 25. This example does not deal with, and is not intended to illustrate, the auditor's evaluation and conclusion of whether the description is appropriate and meaningful.



## Identify and assess risks of material misstatement



### Risk assessment is key

In obtaining an understanding<sup>4</sup> of the entity's process to prepare the above description, the auditor identified the following risks of material misstatement related to the description:

- Key facts in the description cannot be substantiated (occurrence).
- The description overstates patients' satisfaction with the service, in that the percentage does not agree with the survey report result (faithful representation).
- Quotes selected by the entity do not appropriately reflect the entity's service performance or are misleading (presentation and accuracy.)

The auditor assessed these risks as follows:

- "Low" risk that key facts made cannot be substantiated. Key inherent risk factors<sup>5</sup> considered:
  - Previous audits have not identified any significant statements that the entity has not been able to substantiate.
  - Key facts have no or a low level of judgement or uncertainty.
- "Low" risk that the description overstates patients' overall satisfaction with the service. Key inherent risk factors considered:
  - Previous audits have not identified instances of overstatement.
  - The survey process is outsourced to a reputable external service provider that uses a well-known off-the-shelf survey tool.
  - Whether the reported overall satisfaction is consistent with the survey results is straightforward. However, the faithful representation of the survey results depends on patient selection, and response collation and reporting processes.
- "Moderate" risk that the quote does not appropriately reflect the entity's service performance or is misleading. Key inherent risk factors considered:
  - The entity has been criticised in the media for spending a large amount of money to develop and implement the digital service. The entity may want to overstate the benefits of the service to justify the spending to its funders and the community.
  - Determining which quotes to include require management's judgement.
  - While reading the minutes of governance meetings, the auditor identified that patients experienced connectivity issues with the digital health system during consultations.

### Audit procedures in response to the assessed risks

In designing the audit procedures the auditor considered the persuasiveness of the evidence required for the "low" and "moderate" assessed risks.

### *Response to the "low" risk that key facts that cannot be substantiated*



### Consider how qualitative statements can be verified

The auditor considered key facts from the material description, for example:

<sup>4</sup> NZ AS 1 (Revised) paragraph 18 as it relates to understanding the information system and communication relevant to the preparation of service performance information, as well as the control activities component.

<sup>5</sup> ISA (NZ) 315 (Revised 2019) Identifying and Assessing the Risks of Material Misstatement, Appendix 2.

***At the start of the reporting period, we launched digital health services to enhance access to timely health care.***

The auditor referred to the minutes of governance meetings which indicated the date when the new digital health service was approved and launched. The auditor is comfortable with the relevance and reliability of the evidence to respond to the “low” risk.

If the circumstances were different and the auditor was responding to a higher assessed risk, the auditor would consider more persuasive evidence, such as:

- A signed service level agreement from a third-party provider indicating when the entity can legitimately use the system.
- A go-live approval, an internal document signed by authorised individuals indicating the specific date from which the system was first in use.



#### **Apply professional judgement and professional scepticism**

***Having more regular contact with health professionals to monitor her chronic condition, Mere has shown significant improvement.***

The auditor was sceptical about this statement and asked for evidence that Mere’s condition has significantly improved and whether this was as a direct result of using the digital health service being provided? Management agreed that the direct relationship cannot be substantiated and that other factors such as improved medical interventions had a significant impact. Management therefore removed the sentence.

**An alternative option to removing the sentence, was for management to make the necessary supporting information available to the auditor to corroborate their updated statement:**

***Having more regular appointments, ~~contact with health professionals were able to monitor her chronic~~ whether Mere’s condition, Mere has shown significant was improving ~~ement or whether changes to her medicine were required.~~***

#### **Response to the “low” risk that the description overstates patients’ satisfaction**

***We engaged a third party to conduct a survey of the patients who used the digital service to obtain feedback about their experience. 70% of the patients were satisfied with the service provided. For further information on how the survey was compiled and conducted, and for detailed quantitative results, go to table 1 on page x.***

To test the overall reliability of the survey results, the auditor obtained a copy of the survey results directly from the third-party provider. From the survey and discussions with the third-party provider, the auditor obtained information on the description below table 1 on page x of how the survey was compiled and conducted. The auditor evaluated the adequacy of the disclosure, and documented their evaluation of the following aspects of the survey process:

- How the patients were selected.
- Whether there were any potential bias in the questionnaire.
- How the patients’ responses were collated and reported.

The 70% satisfaction rate reported in the statement of service performance was agreed to the survey report obtained from the third party. The auditor tested the mathematical accuracy of the satisfaction rate in the survey and did not identify any misstatements.

#### **Response to the “moderate” risk the quote selected does not appropriately reflect the entity’s service performance or is misleading**

***“With not being able to drive, previously I had to rely on family and friends being available to take me to my GP appointments. With the digital health service,” Mere explains, “I am able to talk to a doctor in a timely***

*manner before my symptoms worsen, giving me peace of mind. I have also used the digital health service to follow-up in person consultations which has made managing my chronic condition easier”.*

The auditor determined that the quote was selected from patient feedback provided in the patient survey and was an exact replica of Mere’s feedback.

The auditor considered whether one quote places undue emphasis on good performance and downplays/omits poor performance, and that it could be misleading. The auditor therefore considered other feedback in the survey and noted that other patients who were “satisfied” with the service, shared Mere’s sentiment.

However, the auditor identified that the majority of the feedback from “dissatisfied” patients centred around frustration with being disconnected during consultations. This information was consistent with the auditor’s knowledge obtained from reviewing governance meeting minutes.

Following discussions management agreed to include the following wording to provide a more balanced view:

*“Being a new system, an issue occurred in the current year where patients were disconnected on multiple occasions during consultations. This issue was reflected in some of the comments received by dissatisfied patients who were frustrated by the service over this period.”*

WORKING DRAFT

## Example 2: Attendance at an event (quantitative)

### Background

The entity's purpose is to support families when a family member is diagnosed with a critical illness by helping families to feel less isolated. The objective of the entity's peer-support approach is that families find connection and support from others through a lived, shared experience.

The entity holds events that create a safe space for families to come to share experiences and offer support to one another. Families who sign up with the entity can participate in events throughout the year. Events include family gatherings, parent evenings, and a Halloween party. The number of families who attend the events is important information for the entity to know how many families it has supported.

Previously the entity recorded the number of families who signed up with the entity. This however did not capture who attended events and hence whether the entity achieved its objective of supporting through connection. Trend analysis of this data was also skewed by increases in the number of diagnoses.

### Statement of Service Performance extract

#### Performance indicators – peer-to-peer support

Measurement	Current year 20xx	Prior year 20xx
Number of families attending events	2,045	1,874

**Number of families attending events:** the sum of the number of families\* that have attended each event/activities held during the reporting period

\* One or more family members is measured as one family.

### Auditor's work to date



#### Focus on what is important to users

Using their understanding of the entity (why the entity exists, what it intends to achieve and what activities or services the entity performs), the auditor documented they agreed with management's assessment, that "the peer-to peer support approach" is an important element/aspect of the entity's service performance information. As families attending events directly relates to the entity's objective to support families through events, the auditor, in their professional judgement, determined that it is a material measure. As a material measure, it would be subject to further audit procedures designed to obtain audit evidence on whether it is free from material misstatement.



#### Risk assessment is key

From the risk assessment procedures performed, the auditor identified risks associated with the occurrence and accuracy assertions and assessed the likelihood of a misstatement occurring and magnitude of the potential misstatement as moderate.

### Obtaining sources of evidence



#### Look for different sources of audit evidence

The entity disclosed the recorded attendance numbers. Based on this, the auditor determined that relevant and reliable evidence for the number of people attending the events was needed, for example, sign-in sheets.

If the entity made a more general statement, such as, “our events are attended by a number of people”, then evidence such as photos, and social media posts may have been sufficient.

In obtaining an understanding, the auditor asked management the following questions to determine what information sources were available to address the risks of material misstatement (associated with occurrence and accuracy) identified:

- How do you determine the number of families that attend each event?
- Is the same process applied across all similar events and locations?
- What records do you keep from each event about the number of families who attended?
- Are there any records relating to the events from external parties, for example invoices?

From these enquiries, the auditor understood that different records exist depending on the event. Some records were the same as those used in the audit of the financial statements (for example, a supplier invoice) while other records differed. The auditor’s workpapers described the following key points from the questions:

- Group events for family members take place indoors at local coffee shops or community centres. A sign-in sheet is used to record who attends. A volunteer ensures that all attendees have signed in. If more than one person from a family attends and signs in, they are recorded as one family attending in accordance with the entity’s measurement basis. The information from the sign-in sheets is collated into a summary spreadsheet.
- For larger events such as the Halloween party, families register on an online platform. A sequentially numbered \$20 voucher is given to each family when they arrive to use at the food truck. The family is marked off the summary printout of registrations. The number on the last sequential numbered voucher is reconciled to the number of families marked off the summary printout of registrations following the event. The food truck invoices the entity for the value of the vouchers collected and attaches the vouchers to the invoice. The entity checks the invoice against the vouchers prior to payment.

### Considering reliability of available evidence

To consider the reliability<sup>6</sup> of available sources of information, the auditor asked management:

- How do you obtain comfort that the number of families attending events is complete and accurate?
- Are there any documented internal reviews performed on the number of families who attended events?
- Is the same process applied across all similar events and locations?
- Is this information shared with the board? If so, what questions do they ask about the information?
- Have any errors been detected. If so, what were they, and how were they identified and resolved?

### Considering relevance of available evidence



#### Document your judgements

<sup>6</sup> ISA (NZ) 500 *Audit Evidence*, paragraph 7

When designing the audit procedures, the auditor considered the purpose of the audit procedures and whether the information sources available are relevant for the purpose of the test.<sup>7</sup> The procedures are designed to address the assertions:

- Occurrence: management may overstate the number of families attending events to reflect a more favourable level of service performance; and
- Accuracy: primarily over the data entry processes.

In the auditor's professional judgement, the risk of understatement or completeness of families not signing, is minimal due to the entity wanting to reflect the most favourable level of performance. Some testing was planned over completeness of the information produced by the entity for example, the data entry process in that specific family events are included in the summary spreadsheet, and a comparison to the food truck invoice for the Halloween event.

### Perform audit procedures



#### Risk assessment is key

The auditor performed the following procedures based on the "low" risk assessment.

#### *Specific family member events*

To test occurrence and accuracy:

- Obtained a copy of the summary spreadsheet that was used to collate the date of the event, and the number of families who attended the event
- Tested the mathematical accuracy of the spreadsheet
- Selected specific events (based on the number of families at the event) until the number of families remaining are below materiality
- For each selected event:
  - Inspected the sign-in sheet for families with more than one person attending
  - Added up the number of family names on the sign-in sheet making sure that families with more than one person attending are not counted twice
  - Agreed the number with the number on the summary spreadsheet.

To test completeness of the summary spreadsheet, haphazardly agreed a selection of events from the entity's schedule of events on their website to the summary spreadsheet of events.

#### *Annual Halloween event*

To test occurrence and accuracy:

- Obtained a copy of the registration summary for the Halloween event (from the online registration platform) and observed how it was extracted from the platform
- Agreed the copy to the registration summary used at the event
- Counted how many family names had been crossed off the registration summary indicating that food tickets had been issued
- Agreed the number of crossed off families to the number of families that the entity reported.

To test occurrence, accuracy and completeness

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<sup>7</sup> ISA (NZ) 500, paragraph 7

- Compared the number of food vouchers per the food truck invoice to the number of families crossed off the registration summary. The auditor accepted the difference, because it was below their tolerable threshold and considered it realistic that not every family would collect their meal from the food truck, even though they had a voucher for the meal.

### **Evaluating the evidence obtained**



#### **Apply professional judgement and professional scepticism**

The auditor used professional judgement and exercised professional scepticism to evaluate whether the audit evidence obtained was sufficient and appropriate. The auditor considered:

- Whether the online platform is reliable based on the auditor's understanding obtained?
- Whether the sign-in sheets were available for the specific family member events?
- Whether there were any unexplained differences above tolerable threshold that were not adjusted by management?
- Whether the number of families attending was able to be verified to a high level of precision?



## Memorandum

**To:** NZASB Members

**Meeting date:** 9 October 2025

**Subject:** **IASB Request for Information – Post-implementation Review  
IFRS 16 Leases – Comment letter**

**Date:** 26 September 2025

**Prepared by:** Nimash Bhikha

**Through:** Michelle Lombaard

**Action Required**

**For Information Purposes Only**

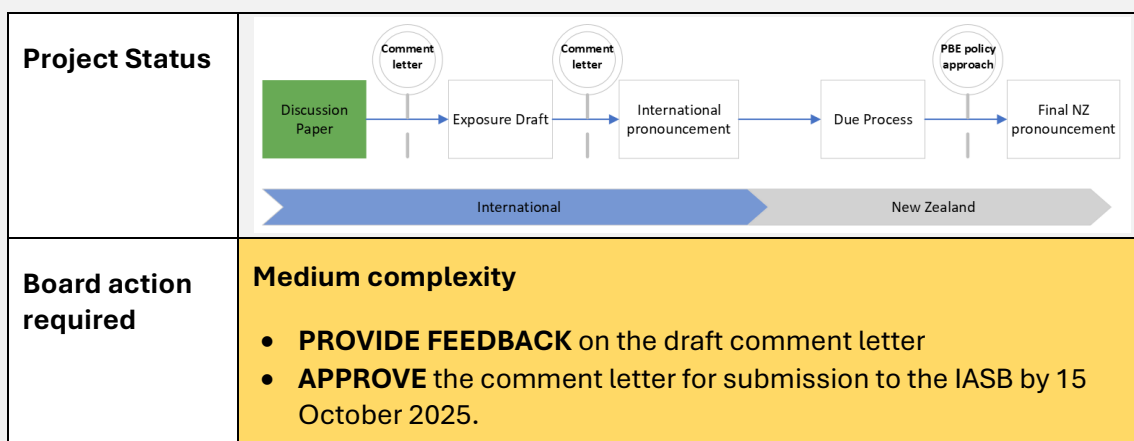
### COVER SHEET

#### Project priority and complexity

<b>Project purpose</b>	<p><b>IASB Perspective:</b> The objective of the post-implementation review (PIR) is to assess whether IFRS 16 <i>Leases</i> is working as intended and achieving its objectives.</p> <p><b>NZ Perspective:</b> From a NZ perspective, our objectives are to:</p> <ul style="list-style-type: none"> <li>Assess whether NZ IFRS 16 is operating as intended in New Zealand, including assessing whether the benefits of applying the Standard for users outweigh the costs to preparers; and</li> <li>Contribute feedback to the IASB’s PIR to ensure that any resulting amendments suitably address NZ-specific issues.</li> </ul>
<b>Cost/benefit considerations</b>	N/A – Evaluating the costs and benefits of NZ IFRS 16 is one of the objectives of the PIR.
<b>Project priority</b>	<p><b>Low</b></p> <p>As a PIR is primarily an information gathering exercise and is not currently proposing a change to the accounting standards, we consider this to be of low priority. The priority of the project will be reassessed at the conclusion of the PIR stage of the project based the extent of the amendments (if any) the IASB intends to propose.</p>



## Overview of agenda item



### Purpose and introduction<sup>1</sup>

1. The International Accounting Standards Board (IASB) has released a [Request for Information Post-implementation Review of IFRS 16 Leases](#) in June 2025. The Board agreed to comment on the RFI at the June 2025 meeting.
2. The purpose of this item is to seek the Board's feedback on the draft comment letter and seek the Board's approval of the comment letter.

### Recommendations

3. We recommend the Board:
  - (a) **PROVIDES FEEDBACK** on the draft comment letter; and
  - (b) **DISCUSS** any relevant matters and **APPROVE** the comment letter for submission to the IASB.

### Structure of this memo

4. This memo includes following sections.
  - (a) [Background](#)
  - (b) [Outreach summary](#)
  - (c) [Feedback analysis](#)
  - (d) [Draft comment letter and next steps](#)

<sup>1</sup> This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Accounting Standards, IFRIC® Interpretations and IASB® papers).

## Background

5. On 17 June 2025, the International Accounting Standards Board (IASB) published the [Request for Information Post-implementation Review of IFRS 16 Leases](#).
6. The IASB's PIR will evaluate whether IFRS 16 *Leases* is broadly working as intended for investors, companies, auditors and regulators. PIRs are a vital part of the IASB's due process, and the IASB conducts a review a few years after a standard has been implemented to assess its real-world effects.
7. IFRS 16 aimed to improve information that companies provide about their lease arrangements to investors and other users of financial statements. The standard was issued in January 2016 and came into effect in January 2019.

## Outreach summary

8. Our outreach activities in relation to this RFI included the following:
  - (a) Raising awareness of the IASB's RFI via the XRB's 'Accounting Alert' throughout June to September 2025;
  - (b) Publishing the RFI on the XRB's website and inviting comments from stakeholders through a NZ specific survey on NZ IFRS 16 (which is aligned to IFRS 16);
  - (c) Receiving feedback from the Accounting Technical Reference Group (TRG) on the RFI's specific questions and additional practical NZ considerations;
  - (d) Holding discussions with Nomos One (lease software provider) around the challenges in reporting under NZ IFRS 16 based on their client's feedback; and
  - (e) Holding individual meetings with the following NZX listed entities to directly hear from them on the costs, benefits and challenges in reporting under NZ IFRS 16:
    - Seeka Limited
    - WasteCo Group Limited
    - MOVE Logistics Limited
    - Meridian Energy Limited
    - T&G Global Limited
    - Air New Zealand Limited
    - Scales Corporation Limited
9. In addition, we co-hosted three AASB 16 / NZ IFRS 16 roundtables with Australian and New Zealand entities with the AASB, CPA Australia and CA ANZ. Themes from the feedback from New Zealand entities have been included in the draft comment letter.

## Feedback analysis

10. The XRB's consultation period for New Zealand stakeholders ran from Monday 23 June 2025 through to Monday 15 September 2025.

11. Copies of the submissions received for this RFI are attached as agenda item 6.1c – 6.1f. Our detailed analysis of the feedback, including the informal feedback received during our outreach initiatives is included in agenda item 6.1g.
12. The most significant areas of feedback around the implementation of the standard were focussed on the following areas, which we can influence the IASB through appropriate targeted changes to IFRS 16. These areas have all been included as key messages within the draft comment letter:
  - (a) Usefulness and comparability of IFRS 16 information;
  - (b) Impact of leasing judgements on financial information;
  - (c) Lease-related cash flow presentation; and
  - (d) Ongoing compliance costs.

#### **Draft comment letter and next steps**

13. The draft comment letter is attached as agenda item 6.1b. If you have any significant comments on the draft letter, please send them through to Nimash Bhikha prior to the Board meeting, if possible.
14. As the response date to the IASB is by Wednesday 15 October 2025, we will ask the Board to approve the letter at the meeting, subject to any requested changes and final review by the NZASB Chair.

#### **Questions for the Board:**

Q1. Does the Board have any **FEEDBACK** on the draft comment letter?

Q2. Does the Board **APPROVE** the comment letter, subject to any requested changes and final review by the NZASB Chair, for submission to the IASB?

#### Attached Items

- |                           |   |
|---------------------------|---|
| • Agenda item 6.1b        | Draft comment letter – PIR of IFRS 16 <i>Leases</i> |
| • Agenda item 6.1c – 6.1f | Copies of the submissions received for this RFI     |
| • Agenda item 6.1g        | Detailed analysis of submissions and feedback       |

[15 October 2025]

Dr Andreas Barckow  
Chair – International Accounting Standards Board  
IFRS Foundation  
7 Westferry Circus  
Canary Wharf  
London E14 4HD  
**United Kingdom**

Submitted to: [www.ifrs.org](http://www.ifrs.org)

Dear Andreas

### **IASB/RFI/2025/1 Request for Information – Post-implementation review IFRS 16 Leases**

Thank you for the opportunity to comment on the Request for Information IASB/RFI/2025/1 *Request for Information – Post-implementation review IFRS 16 Leases* (the RFI).

The RFI has been exposed for comment in New Zealand, and some constituents may submit their comment directly to you. Our comments have been informed by outreach activities and consultation with preparers, users and practitioners and cover a range of industries and sectors.

We support the technical objectives of IFRS 16 (the standard) and believe its requirements enable the lessees and lessors to provide relevant information about their leases in a manner that faithfully represents those transactions. Our findings suggest that in practice, the standard results in significant costs and complexities for preparers which are perceived to be disproportionate to the benefits. While there is limited desire for substantial changes given the risk of disrupting established procedures, refinements are required to more effectively align the standard's objectives with associated ongoing costs.

We believe that targeted actions by the IASB in several areas could enhance the usefulness of the information in the financial statements resulting from this standard and reduce the cost burden on preparers of financial statements. Our key observations relate to:

- **Impact of lease accounting judgements on financial information** – Judgemental areas such as incremental borrowing rate (IBR) calculations and lease term assumptions have led to wide variability in practice, eroding comparability. We recommend introducing a clearer framework for IBR estimation (e.g. utilising sector benchmarks or suggested methodologies utilising commonly sourced market rates) and clearer criteria for lease term assessments and lease renewals to allow preparers to better understand and apply their judgements.

- **Lease-related cash flow presentation** – Preparers and users have noted that IFRS 16 does not improve the visibility of lease-related cash flows, and certain metrics are skewed by the requirements. Reclassifying certain lease payment elements as financing activities has obscured operational cash flow insights, especially when a single lease payment is made. We recommend the IASB explore the presentation and disclosure of lease-related cash flows further as part of the on-going Statement of Cash Flows and Related Matters project.
- **Ongoing compliance costs** – Many preparers report that the ongoing cost of applying IFRS 16 remains significantly higher than anticipated, especially due to frequent remeasurement triggers (e.g. rental adjustments and fleet vehicle lease renewals) and manual processing due to leasing system limitations. We recommend introducing clearer guidance (e.g. decision trees) and simplified reassessment criteria to reduce the unnecessary compliance burden.

We appreciate the IASB's commitment to ongoing improvement of international financial reporting standards and thank you for the opportunity to contribute to this RFI. Our recommendations and responses to the specific questions for respondents are provided in the Appendix to this letter.

If you have any queries or require clarification of any matters in this letter, please contact Nimash Bhikha ([nimash.bhikha@xrb.govt.nz](mailto:nimash.bhikha@xrb.govt.nz)) or me.

Yours sincerely

Dr Carolyn Cordery  
**Chair – New Zealand Accounting Standards Board**

## Appendix

### Question 1 — Overall assessment of IFRS 16

*(a) In your view, is IFRS 16 meeting its objective (see page 9) and are its core principles clear? If not, please explain why not.*

*(b) In your view, are the overall improvements to the quality and comparability of financial information about leases largely as the IASB expected? If your view is that the overall improvements are significantly lower than expected, please explain why.*

*(c) In your view, are the overall ongoing costs of applying the requirements and auditing and enforcing their application largely as the IASB expected? If your view is that the overall ongoing costs are significantly higher than expected, please explain why, how you would propose the IASB reduce these costs and how your proposals would affect the benefits of IFRS 16.*

*The Effects Analysis on IFRS 16 describes the expected likely effects of the Standard, including benefits and implementation and ongoing costs.*

### Response to Question 1: Overall assessment of IFRS 16

*Is IFRS 16 meeting its objective and are its core principles clear?*

1. IFRS 16 was intended to provide relevant information that faithfully represent lease transactions, by requiring lessees to recognise nearly all leases on the balance sheet. Conceptually, the objective is sound and well-understood, and we support this objective overall.
2. In practice, the benefits of more faithful representation of leases within the financial statements are clouded through complexity in understanding judgements and finding the relevant information needed for decision-making. Preparers have reported that users – particularly banks and analysts – find the standard’s complexity results in information being less understandable and comparable, consequently diminishes the usefulness of information, particularly in the following aspects:
  - (a) Banks and analysts explicitly request additional information about lease expenses and cash outflows, to understand the impact of leases on an entity’s performance and adjust IFRS 16-related balances when analysing financial statements. We recognise that the IASB expected users’ systems and processes to adapt to IFRS 16, however this has not happened, even after seven years since the standard took effect in 2019.
  - (b) We have heard that preparers continue to receive feedback from their users that they prefer to see a direct total lease expense amount, rather than manually having to identify lease related depreciation of the right-of-use asset and interest on the lease liability, and that covenants within loan agreements are based on total lease expenses being included in metrics such as Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA), while return on asset and debt-ratio calculations are based on assets and liabilities excluding leases. We note that some banks are looking to stop adjusting IFRS 16-related amounts as they renew loan covenants in the future, this is still currently limited and not common.

- (c) Preparers have also noted that judgement-heavy requirements — such as those involving the lease term, incremental borrowing rates (IBR), and extension options — add significant complexity, and consequently increase costs, without delivering corresponding benefits. Many preparers report spending disproportionate time on manual processes in these areas.

3. We also note that one of the IASB's expected benefits for preparers is enhanced internal decision-making, as noted on page 26 of the IFRS 16 Effects Analysis. Preparers have highlighted that rental costs are no longer reflected in EBITDA, which is the primary internal performance metric. This leads to inflated profitability measures and reduces internal visibility of recurring lease obligations. We consider that general-purpose financial reports should prioritise external users' needs, however preparers need to shift their perspective and view leases as financing arrangements, rather than operational arrangements, to achieve better internal decision-making.

*Are the improvements to information quality and comparability as expected?*

4. Based on the feedback we have received, the comparability and quality improvements resulting from IFRS 16 are lower than expected. Practical application of the standard has resulted in information that is difficult to compare, as differences in discount rate determinations, lease term assumptions, and variable lease treatments for similar leases mean lease balances are not comparable between reporting entities.
5. There are concerns from preparers that inconsistent disclosure of key assumptions like renewals and discount rate, do not meaningfully improve understanding nor allow for consistent analysis by users. Some users, such as banks and analysts, have noted that the IFRS 16 disclosures in practice do not provide information specific to the entity being evaluated, and therefore they disregard the lease disclosures made in the financial statements.

*Are the ongoing costs largely as the IASB expected?*

6. No. While the IASB anticipated implementation costs would be high, it expected ongoing compliance costs to be only marginally greater than under the previous IAS 17 Leases. Feedback from New Zealand preparers shows this is not the case for most preparers with moderate to large lease portfolios or frequent lease modifications. We have heard that IFRS 16 is viewed as a compliance exercise rather than a value-adding or decision-informing standard.
7. Examples of significantly higher ongoing compliance costs include determining IBR rates for lease liability calculations and time spent on processing accounting adjustments due to the lease liability reassessment requirements. Costs also arise from identifying and accounting for lease modification requirements in IFRS 16, which requires significant manual effort.
8. We have heard from preparers that this manual effort involves the equivalent of several months of full-time resources across the reporting period, as well as additional time for entity governance's review of technical judgements. Based on the feedback, coupled with annual licence fees for lease accounting software, preparers highlighted that the overall cumulative costs are disproportionate to the resulting benefits of the standard.

*How could the IASB reduce ongoing costs and how they would affect the benefits of IFRS 16?*

9. We recommend the IASB take the following actions to reduce the ongoing cost burden:
- (a) Provide additional IBR guidance by utilising sector benchmarks or suggested methodologies utilising commonly sourced market rates for short-to-medium term leases (e.g. government bond rate with additional sector margins for financing and asset factors) and allow for the use of publicly available ranges based on lease term and asset class.
  - (b) Provide clarity around how preparers can evaluate lease terms, modifications and renewals to ensure consistent judgments and when they would impact on the right-of-use and lease liability balances. This will help preparers focus their analysis on the key matters which may impact on applying IFRS 16, rather than tracking and assessing all lease reassessments and modifications which may not impact on the application of the standard.
  - (c) Evaluate whether additional disclosures which are currently being requested by users, such as reconciliation of cash rental payments to IFRS 16 expenses, disclosures around the useful life of leased assets and information about impact of lease extension options would be useful to include into the requirements of the standard. This will provide information which is more aligned to user needs and reduces costs for entities who are voluntarily providing this information in response to user requests.

**Question 2 — Usefulness of information resulting from lessees' application of judgement**

- (a) Do you agree that the usefulness of financial information resulting from lessees' application of judgement is largely as the IASB expected? If your view is that lessees' application of judgement has a significant negative effect on the usefulness of financial information, please explain why.*
- (b) Do you agree that the requirements in IFRS 16 provide a clear and sufficient basis for entities to make appropriate judgements and that the requirements can be applied consistently? If not, please explain why not.*
- (c) If your view is that the IASB should improve the usefulness of financial information resulting from lessees' application of judgement, please explain:*
- (i) what amendments you propose the IASB make to the requirements (and how the benefits of the solution would outweigh the costs); or*
  - (ii) what additional information about lessees' application of judgement you propose the IASB require entities to disclose (and how the benefits would outweigh the costs).*

**Response to Question 2: Usefulness of information resulting from lessees' application of judgement**

*Is the impact of the application of judgement on the usefulness of financial information as expected?*

10. No. Based on feedback from our stakeholders, lessees' application of judgement has reduced the usefulness of financial information in terms of comparability across preparers and understandability for users of financial statements.



11. The requirement for substantial judgement in determining discount rates has led to inconsistent outcomes and comparability concerns, particularly as this judgement is applied inconsistently between preparers. Determining discount rates varies considerably even for similar entities and similar leases, due to lack of observable rates, especially for long-term property leases (which are common in New Zealand).
12. There has also been varying application of lease term judgements, and whether a lessee is “reasonably certain” to extend or terminate a lease relies on entity-specific economic incentives, which are highly subjective. There is also divergence in recognition of extension options and modifications of leases which limits the usefulness of IFRS 16 information.
13. Several preparers have noted that technology gaps amplify judgement risks, as lease software often cannot accommodate complex lease features, meaning judgement is applied offline and risks human error. The lack of required disclosures on judgements around determining IBRs and assessing lease modifications and renewals have resulted in inconsistent information, which has reduced the usefulness of financial information.

*Are IFRS 16 requirements sufficiently clear to support appropriate judgements and can the requirements be applied consistently?*

14. No. We do not consider the requirements of IFRS 16 are sufficiently clear to support the consistent application of judgements, particularly around determining IBRs and the assessment of lease terms involving contractual break clauses or renewal rights. We note that the IFRS Interpretations Committee has issued six separate agenda decisions relating to IFRS 16 since its introduction, across November 2019 to April 2023, which indicates that preparers have significant questions when applying the standard.
15. At present, most lease contracts, and contract negotiation practices in New Zealand, do not provide sufficient information for lessees to be able to determine the interest rate implicit in the lease, often making these requirements redundant. Preparers default to estimating an IBR and the definition of the lessee’s IBR within IFRS 16 (Appendix A) is broad. This has led to diverse estimation methodologies, and preparers working in similar sectors report wide variation in inputs and assumptions due to the absence of market-wide guidance or standardised data sources.
16. The requirements around IBR are interpreted differently, with some preparers using “bottom-up” IBR calculations built from risk-free rates, while other use a “top-down” comparable rate evaluated from peers. IBR approaches are often challenged by auditors and require multiple iterations using differing methodologies to demonstrate they are appropriate, which adds significant costs to resolve differing views on what constitutes an appropriate IBR.
17. There is a need for more standardised guidance on how to use market data when developing IBR rates, when to reassess lease terms and how to account for extension and termination options to avoid diversity in practice. The concept of “reasonably certain” (within IFRS 16.B37–B40) is open to interpretation, as the determination of whether the entity has economic incentives to extend a lease when assessing the lease term is subjective and difficult to apply in practice.

*Suggestions to improve the usefulness of financial information resulting from application of judgement*

18. We recommend the IASB develop a framework for IBR determination using publicly available yield curves and credit spreads and requiring additional disclosure on the assumptions and sensitivities surrounding lease term and IBR judgements, enabling better comparability of information for users. The IASB should address the following aspects in their guidance:

- (a) Introduce a more detailed framework for IBR estimation. This could specify a default method for IBR assessments (e.g. government bond yield and credit spread), with sector benchmarks and uncertainty adjustments based on differing lease terms. This could also include examples of IBR curves or ranges, to allow for anchored estimation and improved comparability. This would reduce complexity, audit disputes, and effort for preparers.
- (b) Clarify “reasonably certain” thresholds for lease term assumptions to allow for more consistent application in these judgements. This could consider how this threshold should be applied for leases which an entity’s operations fundamentally depend upon and how longer-term renewals and break clauses can be evaluated. This would reduce ambiguity and allow auditors and preparers to work from a common starting point.
- (c) Clarify the criteria needed to distinguish between variable payments and in-substance fixed payments, particularly for market rent reviews which do not depend upon an index or a rate. Payments that appear variable but are economically unavoidable require nuanced interpretation and are often inconsistently applied.
- (d) Provide illustrative examples of disclosure intended by IFRS 16.59 around additional qualitative and quantitative information. This could include examples which demonstrate disclosures around the range of IBRs used and method of derivation, extension/termination options included in the lease calculations and rationale and sensitivity analysis of lease liability to IBR and lease term assumptions. This would improve user understanding of the underlying estimates, support comparability and would provide information which many preparers are voluntarily providing to meet user needs.

**Question 3 — Usefulness of information about lessees’ lease-related cash flows**

*Do you agree that the improvements to the quality and comparability of financial information about lease-related cash flows that lessees present and disclose are largely as the IASB expected? If your view is that the improvements are significantly lower than expected, please explain why.*

**Response to Question 3: Usefulness of information about lessees’ lease-related cash flows**

19. Based on feedback from our stakeholders, we do not believe the improvements in the quality and comparability of lease-related cash flow information are as significant as the IASB expected. While IFRS 16 has increased the visibility of lease-related balances on the balance sheet and provided a consistent framework for lease liability measurement, it has not significantly enhanced the usefulness or comparability of cash flow information for most users. In some

cases, it has obscured meaningful operational insights and required users to make manual adjustments or rely on non-GAAP metrics.

20. Under IFRS 16, in the Statement of Cash Flows the principal repayments of lease liabilities are classified as financing activities, and interest is shown as either an operating or financing cash flow (IFRS 16.50). This prevents users from seeing total lease costs within operating activities as before; rental payments, once fully included in operating cash flows, are now split, complicating year-on-year comparisons.
21. Key external stakeholders (including banks, analysts and the entity's governance) continue to remove or restate IFRS 16 effects when performing operational cash flow trends and margins, credit assessments, enterprise valuation, or covenant monitoring. Banks specifically request total lease cash outflow information, as part of their lending arrangements and analysts use non-GAAP reconciliations to calculate adjusted metrics that remove or restate the effects of IFRS 16, rendering the IFRS 16 classification of lease cash flows less relevant to decision-making.
22. This widespread adjustment behaviour indicates that the cash flow presentation under IFRS 16 is not aligned with user needs, reducing the practical comparability the standard sought to deliver. While a longer-term mindset change is needed from preparers and users to see leases as primarily financing arrangements, rather than operational arrangements, the current short-term focus is on removing IFRS 16 balances and continuing their analyses unchanged.
23. While IFRS 16 requires disclosure of total cash outflows for leases (IFRS 16.53(g)), it is difficult for users to understand how this single-line disclosure reconciles to the cash flows which are presented in the Statement of Cash Flows (in line with IFRS 16.50). As the interest in lease liabilities is front-loaded, the cash flow implications are not intuitively understood, especially when compared to historical rent expense patterns.
24. In addition, preparers apply different approaches to aggregating lease cash flows. Some preparers disclose only cash outflows for lease liabilities, while others include short-term and low-value leases or include or exclude variable lease payments depending on judgements. This diversity limits comparability among preparers, particularly for analysts attempting to benchmark leasing intensity, cash coverage ratios, or operating cash flows.
25. Preparers with multiple lease systems or spreadsheets face challenges in accurately classifying lease-related cash flows across interest payments, principal repayments, variable lease payments, and non-lease components. For many preparers, a high level of manual work is required to reconcile and report lease-related cash flows, due to system limitations and inconsistent data capture. In some cases, preparers rely on proxy allocation methods to split the interest and principal, introducing estimation "noise" and undermining comparability.
26. We recommend the IASB:
  - (a) Engage with investors, banks and analysts to critically examine which disclosure requirements within IFRS 16 are meeting user's needs, and which information is being removed from their analyses, and consider replacing lesser-used disclosures with

disaggregated disclosures of total cash lease payments into principal and interest, and reconciliation of cash rental payments to IFRS 16 expenses.

- (b) Further explore the presentation and disclosure of lease-related cash flows further as part of the on-going Statement of Cash Flows and Related Matters project, to encourage consistent application of presentation and disclosure requirements in a way that is useful to users. As user needs evolve over time, we consider this to be the appropriate time to reassess what information users are interested in when understanding lease cash flows.

#### **Question 4 — Ongoing costs for lessees of applying the measurement requirements**

*(a) Do you agree that the ongoing costs of applying the measurement requirements in IFRS 16 are largely as the IASB expected? If your view is that the ongoing costs are significantly higher than expected, please explain why, considering how any entity-specific facts and circumstances (such as IT solutions) add to these costs.*

*(b) If your view is that the ongoing costs are significantly higher than expected, please explain how you propose the IASB reduce these costs without a significant negative effect on the usefulness of financial information about leases.*

#### **Response to Question 4: Ongoing costs for lessees of applying the measurement requirements**

*Are the costs of applying the measurement requirements in IFRS 16 largely as the IASB expected?*

27. No. While we recognise the IASB's intent to balance costs and benefits, we consider the ongoing costs of applying the measurement requirements in IFRS 16 are significantly higher than expected. Preparers flagged the remeasurement of lease liabilities, particularly due to changes in IBR, lease modifications, and changes in variable lease payments as a major recurring burden. Many preparers we heard from noted they manually reassess leases every time there is a new lease, or a change in the lease term, which happens frequently for fleet vehicle leases and multi-entity operations.
28. We have also heard that many lease systems lack integration (e.g., fixed asset register, general ledger code, or asset tracking) or do not have all the desired functionality needed for complex or tailored leases, which causes redundant data entry and high internal control risk. In addition, using entity-specific IBRs introduces estimation volatility, and for large lease portfolios makes auditor review more difficult, raising compliance costs with little added benefit.

*How the IASB can reduce these costs without a significant negative effect on the usefulness of financial information about leases*

29. We believe the IASB can significantly reduce ongoing costs by implementing targeted simplifications that preserve the integrity and usefulness of lease information. We recommend the IASB:

- (a) Establish a simplified IBR framework for preparers without observable borrowing rates, such as use of government bond rates plus fixed margins by lease term buckets or sectoral reference curves published periodically (like the discounting guidance contained in IFRS 17 *Insurance Contracts*). This will reduce efforts to estimate bespoke IBRs, improve auditability and comparability and will be useful for preparers with small lease portfolios.
- (b) Clarify the requirements relating to reassessment of the lease liability and lease modifications by providing illustrative decision trees for lease modification and remeasurement triggers within the core text of the standard. This action could address common areas of confusion, such as whether rental changes due to changes in inflation would be a lease modification, and how to treat expected and enforceable renewal rights. This will benefit both preparers and auditors, streamline systems processes and support documentation.
- (c) Provide clearer guidance in the core text of the standard around the importance of materiality in the context of lease reassessments and modifications and how this interacts with the “low value” lease thresholds which is included in IFRS 16 (for where the full recognition and measurement requirements of IFRS 16 do not apply). This will avoid costly and unnecessary recalculations for immaterial changes, aligning with the materiality principles in the Conceptual Framework.

#### **Question 5 — Potential improvements to future transition requirements**

*Based on your experience with the transition to IFRS 16, would you recommend the IASB does anything differently when developing transition requirements in future standard-setting projects? If so, please explain how your idea would ensure:*

- (a) users have enough information to allow them to understand the effect of any new requirements on entities' financial performance, financial position and cash flows; and*
- (b) preparers can appropriately reduce their transition costs when implementing new requirements for the first time.*

#### **Response to Question 5: Potential improvements to future transition requirements**

30. The first year of reporting under IFRS 16 was particularly challenging due to the volume and complexity of data required, especially for preparers with large lease portfolios, combined with the pandemic in 2020–2022. Most preparers found the availability of both full retrospective and modified retrospective approaches helpful in adopting IFRS 16, with most preparers using the modified retrospective approach.
31. However, we noted that some users have found comparability across preparers challenging due to different transition methods and expedients used across preparers, and early IT solutions were immature, leading to inconsistent data quality and reconciliation issues and prior year adjustments after transition.

32. We recommend for future standard-setting projects which have significant impacts on the internal processes of preparers, that the IASB consider whether a single transition method would be more beneficial. This will aid user comparability and will ensure users have consistent information to allow them to understand the effects of any new requirements on preparers' financial performance, financial position and cash flows.
33. We recommend the IASB allow for extended implementation timeframes when systems and software are not readily available and encouraging early development of IT solutions to align with transition guidance. This will allow preparers to reduce their transition costs when implementing new requirements for the first time by allowing them to consider appropriate system solutions, rather than establishing temporary manual processes which are then subsequently changed in a short time horizon.
34. We also recommend the IASB consider, in the future, providing more guidance or Frequently Asked Questions during the adoption and implementation phase of standards to help preparers understand and address transition challenges in an active way. We also consider the IASB could emphasise the importance of the post-implementation review process upfront as standards are released and being adopted, to allow preparers and users to think about challenges and how they are resolved and provide feedback dynamically as they apply the standard over time.

#### **Question 6.1 — Applying IFRS 16 with IFRS 9 to rent concessions**

- (a) How often have you observed the type of rent concession described in Spotlight 6.1?*
- (b) Have you observed diversity in how lessees account for rent concessions that has had, or that you expect to have, a material effect on the amounts reported, thereby reducing the usefulness of information?*
- (c) If your view is that the IASB should act to improve the clarity of the requirements, please describe your proposed solution and explain how the benefits of the solution would outweigh the costs.*

#### **Response to Question 6.1: Applying IFRS 16 with IFRS 9 to rent concessions**

35. In New Zealand, the type of rent concession described — where the only change to the lease contract is the forgiveness of lease payments — was most observed during the global pandemic in 2020–2022. Although most of these concessions were temporary, their financial reporting impact was significant in sectors such as retail, hospitality, and logistics, where landlords provided several months of rent relief, often unaccompanied by other lease modifications.
36. Such concessions are no longer prevalent in current lease negotiations. However they remain a material historical reporting matter, and there has been diversity in how lessees have accounted for such concessions, with two primary approaches adopted — either the IFRS 16 lease modification approach or the IFRS 9 *Financial Instruments* derecognition approach.
37. These two approaches have led to materially different financial statement outcomes, including timing of profit recognition and differences in presentation of cash and non-cash changes in lease

liabilities. This divergence has caused confusion for users trying to interpret variances across periods and preparers and has reduced comparability in reported figures.

38. While these types of concessions may not be common going forward, we recommend the IASB follow the IFRS Interpretations Committee's recommendation to conduct a narrow-scope standard setting project to address this application challenge. Any actions the IASB explores should consider the following aspects:

- (a) Establishing a clear principle to distinguish between lease modifications that adjust the scope, term, or economics of the lease and require remeasurement under IFRS 16, and partial extinguishments where the lessee is legally released from a payment obligation with no corresponding change to the lease structure or rights of use.
- (b) Providing criteria to determine when forgiveness is a modification compared to an extinguishment, such as whether the lease consideration or term is amended, whether the forgiveness was contractually embedded or discretionary and whether the forgiven payment is past due or future dated. This could include illustrative examples showing concessions during lease holidays, retroactive and prospective forgiveness and concessions linked to one-off events.

**Question 6.2 — Applying IFRS 16 with IFRS 15 when assessing whether the transfer of an asset in a sale and leaseback transaction is a sale**

*(a) How often have you observed difficulties in assessing whether the transfer of an asset in a sale and leaseback transaction is a sale?*

*(b) Have you observed diversity in seller-lessees' assessments of the transfer of control that has had, or that you expect to have, a material effect on the amounts reported, thereby reducing the usefulness of information?*

*(c) If your view is that the IASB should act to help seller-lessees determine whether the transfer of an asset is a sale, please describe your proposed solution and explain how the benefits of the solution would outweigh the costs.*

**Response to Question 6.2: Applying IFRS 16 with IFRS 15 when assessing whether the transfer of an asset in a sale and leaseback transaction is a sale**

39. We have heard that preparers often find it difficult to determine if a sale has occurred in sale and leaseback transactions, especially in real estate intensive sectors, like infrastructure and agriculture, where these transactions are becoming more frequent.

40. The current IFRS 15 *Revenue from Contracts with Customers* guidance on transfer of control does not adequately address partial asset sales, leading to inconsistent reporting and potentially affecting the accuracy and usefulness of financial information.

41. We recommend that the IASB take action to clarify how seller-lessees assess whether the transfer of an asset in a sale and leaseback transaction meets the criteria for a sale under

IFRS 15. This could include issuing targeted implementation guidance which should consider the following aspects:

- (a) Introducing a decision tree or flowchart that maps whether the buyer obtains substantially all the remaining economic benefits, whether the seller retains a continuing substantive involvement, how lease terms (including extension and termination options) affect control and when the leaseback is deemed to undermine the transfer of control.
- (b) Clarifying how to treat partial asset disposals, such as sales of subdivided assets (e.g. one floor of a multi-story building) and sale and leasebacks involving renovated or altered assets.
- (c) Illustrating the impact of non-substantive repurchase rights or residual value guarantees on the transfer of control, or when the leaseback term is significantly longer or shorter than the remaining useful life of the asset.

**Question 6.3 — Applying IFRS 16 with IFRS 15 to gain or loss recognition in a sale and leaseback transaction**

*(a) Do you agree that restricting the amount of gain (or loss) an entity recognises in a sale and leaseback transaction results in useful information?*

*(b) What new evidence or arguments have you identified since the IASB issued IFRS 16 that would indicate that the costs of applying the partial gain or loss recognition requirements, and the usefulness of the resulting information, differ significantly from those expected?*

*(c) If your view is that the IASB should improve the cost–benefit balance of applying the partial gain or loss recognition requirements, please describe your proposed solution.*

**Response to Question 6.3: Applying IFRS 16 with IFRS 15 to gain or loss recognition in a sale and leaseback transaction**

42. We do not agree that restricting the amount of gain (or loss) an entity recognises in a sale and leaseback transaction results in useful information. Although the technical rationale for this restriction is clear, this does not result useful information about the impact of such transactions, as the restricted amount is less understandable and comparable to other transactions which generate unrestricted gains (or losses). Additionally, most sale and leaseback software does not fully capture these arrangements, requiring substantial manual intervention.
43. We have heard from preparers that users (including analysts and banks) find the partial gain (or loss) model opaque and often ask preparers to adjust back to full gain or loss, as this provides more understandable and comparable information to aid in their forecasting of performance. This necessitates the need for more non-GAAP disclosures and reduces trust in the IFRS 16 figures.
44. We recommend the IASB simplify measurement rules and permit full gain recognition when risk transfer is clear, and leaseback terms are market-based. This will reduce preparer costs and support user forecasting by providing more useful financial statement information. This will also align with changes proposed to remove the restriction of gains (or losses) within IAS 28



*Investments in Associates and Joint Ventures*, through the recent Exposure Draft on the equity method of accounting (IASB/ED/2024/7).

**Question 6.4 — Other matters relevant to the assessment of the effects of IFRS 16**

*Are there any further matters the IASB should examine as part of the post-implementation review of IFRS 16? If so, please explain why, considering the objective of a post-implementation review as set out on page 5.*

**Response to Question 6.4: Other matters relevant to the assessment of the effects of IFRS 16**

45. No additional matters or comments.

DRAFT

**From:** Derek Billcliff  
**Sent:** Wed, 20 Aug 2025 21:16:23 +0000  
**To:** XRB Accounting Standards  
**Subject:** FW: Post implementation NZIFRS16 Leases



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**From:** Derek Billcliff  
**Sent:** Thursday, 21 August 2025 9:15 am  
**To:** accounting@xrb.govt.nzXRB  
**Subject:** Post implementation NZIFRS16 Leases

I clarify this is my opinion and not necessarily that of my employer, a Tier 2 for-profit privately-owned group of companies.

I am responding from a preparer's, and observer of internal users, perspective and I question whether the changes for the group I am employed by have improved the overall standard of financial reporting.

My observations post implementation follow:

- The implementation initially caused confusion with the board (and our bankers) requiring explanations of why and what changes were made and the effect on reported profits
- Unwinding transactions to report EBITDA then adding these back and reconciling to external reports adds to time and cost delays in producing monthly accounts.
- Reversing transactions for our bankers who ignore IFRS16 transactions in their covenant calculations
- Adjustments required for deferred tax calculations and preparing income tax returns require additional work and expense
- Additional reconciliations and journals are required monthly of all IFRS16 transactions
- Using external sources to calculate the changes in IFRS16 is an additional cost to the business
- There are companies in the consolidated group that were retail focussed that required IFRS16 adjustments that distorted the management accounts for these entities.
- The accounts preparation require more judgment calls e.g. interest rates of lessors, maintenance allowances for vehicle and office equipment operating leases, lease terms and rent subsidies that I believe can distort the accuracy of financial reports making comparisons difficult unless the transactions are reversed for comparative analysis also.
- Increased notes to the accounts
- Adjustments to cash flow statements is a further complexity.

I believe there should be exemptions (as with some other standards) for private Tier 2 entities as IFRS16 adds little value coupled with the increased complexity and cost in preparing management and annual financial statements can lead to a level of distrust in the financial figures being produced for end users.

I think for issuers IFRS16 probably provides some value over the previous note disclosures, although looking at the slide with users comments, it makes company comparisons difficult and leads me to the view that one of the stated goals of IFRS16 has not been met.



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**PIR of NZ IFRS 16**

Name	David Hayman
Organisation	Nomos One
Role	Other
Tier	3
Sector	Other
Number of leases	10
How would you describe the ongoing costs of complying with NZ IFRS 16?	Moderate
Does your entity use lease accounting software to support NZ IFRS 16 compliance?	Yes
Has the software reduced the costs and complexity of compliance?	Significantly
Are there any significant manual processes that remain?	Yes
What barriers, if any, have you encountered in adopting or using lease accounting software?	Complying with IFRS16 spans across a number of processes and teams and getting all teams involved in any implementation is a challenge. Asset managers may already have systems for their processes and adding one / to that for IFRS16 is a challenge. Controls / cyber security compliance is becoming more of a factor and therefore keeping things in house is preferred.
Please indicate the main sources of ongoing costs (select all that apply)	System changes, Staff training, Ongoing data collection/maintenance
Do you consider the ongoing costs of compliance to be proportionate to the benefits of NZ IFRS 16?	I think the present value calculating of the IFRS 16 balances continues to inhibit the understanding and application of the accounting associated with IFRS16. This reduces the benefits, while there is a reasonably high base level of costs associated with compliance (ongoing updating of data, software costs, review of prepared numbers, audits)
Please describe the most significant ongoing costs or benefits your entity has experienced.	Manual hours spent across finance and property teams is the highest cost associated with compliance. The most significant benefit has been that for businesses who had done the minimum required with relation to their lease accounting, they were forced to do more and that provided time for review and process improvement
Which discount rate method does your entity primarily use for lease accounting?	Incremental Borrowing Rate (IBR)

If you do not use IRIL, what are the main reasons? (select all that apply)	Not practicable to determine, Lack of information from lessors
Specify the reason why you do not use IRIL	
What challenges, if any, have you encountered in determining discount rates?	There are many factors involved in determining the rate and only high level guidance. More detailed guidance or steps to follow or factors to consider would be useful
Does your entity disclose the specific discount rate(s) used in your financial statements?	Sometimes
Please explain why you do not disclose specific discount rates in some circumstances.	Rates by asset class, but not more detail than that. It isn't deemed useful
Does your entity have leases with terms of 50 years or more?	Yes
What challenges, if any, have you encountered in accounting for long-term property or ground leases? Please describe	The longer the lease, the more uncertainty in future years. Also the liability amount might not be a fair reflection of the ROUA amount. So users make a judgement to use a term of less than the longer contractual term
Do you consider the current requirements for long-term leases to be fit for purpose?	No
Please explain	Too much uncertainty in far away future years that need to be accounted for today
How would you describe the level of detail your entity provides in lease-related disclosures?	Details
What factors influence your decisions about the level of lease disclosure? (select all that apply)	Materiality, System limitations, Audit requirements, User feedback, Group policy
Do you believe the current disclosure requirements support comparability and transparency?	Yes
Please explain why or why not.	There are enough prescriptive requirements to be comparative but also enough scope to add useful information to the users
Are you aware of users (e.g., investors, analysts, lenders) adjusting your reported figures to remove the effects of NZ IFRS 16?	Yes
What feedback or explanations (if any) have you received from users about why they make these adjustments?	Models don't include IFRS16 balances
Please provide any additional comments, concerns, or suggestions regarding NZ IFRS 16 or this consultation. You are also encouraged to comment on any other matters raised in the	email to be sent to Nimash as per correspondence

IASB's Request for Information, including topics  
such as the interaction of I

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Nomos One response to IFRS16 Post Implementation Review

David Hayman, Director of Professional Services

15 September 2025

### **Question 1 — Overall assessment of IFRS 16**

***(a) In your view, is IFRS 16 meeting its objective and are its core principles clear? If not, please explain why not.***

Yes, I think IFRS 16 is providing a good framework to provide users with more useful and relevant information about the leasing arrangements that an entity has committed to. I think the core principles are clear, but the real-world application of these principles is not always clear.

***(b) In your view, are the overall improvements to the quality and comparability of financial information about leases largely as the IASB expected? If your view is that the overall improvements are significantly lower than expected, please explain why.***

Yes, I think the quality of an entity's financial information has improved following the application of IFRS 16. I think the comparability across years, within the same entity is as expected and provides good benefit to users. I do not think the qualitative disclosures are being consistently and sufficiently applied to ensure comparability across entities to provide good benefit. I think providing supporting context about term lengths, interest rates and lease types will provide more comparability and information of benefit to users.

***(c) In your view, are the overall ongoing costs of applying the requirements and auditing and enforcing their application largely as the IASB expected? If your view is that the overall ongoing costs are significantly higher than expected, please explain why, how you would propose the IASB reduce these costs and how your proposals would affect the benefits of IFRS 16.***

While I do not know for certain what ongoing costs the IASB expected in relation to application and auditing of IFRS 16, I think ongoing costs are a necessary reflection of the better processes needed to support lease contracts within an entity, as these tended to only be for annual reporting purposes previously and were therefore not providing good information to internal and external users. The simplest way to reduce ongoing costs associated is to leverage technology to reduce manual time spent on administration of information. Automation and having a single source of information is key.

### **Question 2 — Usefulness of information resulting from lessees' application of judgement**

***(a) Do you agree that the usefulness of financial information resulting from lessees' application of judgement is largely as the IASB expected? If your view is that lessees' application of judgement has a significant negative effect on the usefulness of financial information, please explain why.***

I do not think the extent of the usefulness of financial information, with relation to lessee's judgements is as the IASB expected. Many entities take simplified approaches to reduce administration, such as only including lease terms when extensions are signed, and this

reduces the effectiveness of information presented at any point in time. Entities with multiple business units involved in the lease process can result in more informal analysis or decision making isn't always spread across teams.

***(b) Do you agree that the requirements in IFRS 16 provide a clear and sufficient basis for entities to make appropriate judgements and that the requirements can be applied consistently? If not, please explain why not.***

I do think the IFRS 16 requirements are largely clear in the bases for making judgements, but that they aren't consistently applied. This is particularly evident when looking at the expected term, and when that is extended. A specific example is around lease options that start on the 1<sup>st</sup> of July, but on the 30<sup>th</sup> of June, many entities recognise a lease liability of zero. This might be because the extension hasn't been signed, but it could also be because the entity doesn't recognise it until it has commenced. Accounting standard setters need to put some consideration to month and year ends and how these sorts of situations should play out.

***(c) If your view is that the IASB should improve the usefulness of financial information resulting from lessees' application of judgement, please explain:***

***(i) what amendments you propose the IASB make to the requirements (and how the benefits of the solution would outweigh the costs); or***

***(ii) what additional information about lessees' application of judgement you propose the IASB require entities to disclose (and how the benefits would outweigh the costs).***

No comment to this question, as we do not have as much visibility on the judgements that entities make, until they reach the Nomos One system.

### **Question 3 — Usefulness of information about lessees' lease-related cash flows**

***Do you agree that the improvements to the quality and comparability of financial information about lease-related cash flows that lessees present and disclose are largely as the IASB expected? If your view is that the improvements are significantly lower than expected, please explain why.***

Yes, I think the improvements are beneficial, though I don't know the extent to what the IASB expected. Nothing further to add.

### **Question 4 — Ongoing costs for lessees of applying the measurement requirements**

***(a) Do you agree that the ongoing costs of applying the measurement requirements in IFRS 16 are largely as the IASB expected? If your view is that the ongoing costs are significantly higher than expected, please explain why, considering how any entity-specific facts and circumstances (such as IT solutions) add to these costs.***

I think the ongoing costs in administering leases are higher than the IASB expected, but I think that is due to the lack of awareness of how much more administration is needed to get lease processes to a higher standard. Prior to IFRS 16 lease processes were largely lacking and this change forced entities to do more, which is beneficial as a whole and not just for compliance.



***(b) If your view is that the ongoing costs are significantly higher than expected, please explain how you propose the IASB reduce these costs without a significant negative effect on the usefulness of financial information about leases.***

Technology is the best way to reduce costs, because as mentioned, a lot of the costs are in relation to manual administration time. This will benefit the entity as a whole and not just in compliance.

#### **Question 5 — Potential improvements to future transition requirements**

***Based on your experience with the transition to IFRS 16, would you recommend the IASB does anything differently when developing transition requirements in future standard-setting projects? If so, please explain how your idea would ensure:***

***(a) users have enough information to allow them to understand the effect of any new requirements on entities' financial performance, financial position and cash flows; and***

***(b) preparers can appropriately reduce their transition costs when implementing new requirements for the first time.***

No comments on this question

#### **Question 6.1 — Applying IFRS 16 with IFRS 9 to rent concessions**

***(a) How often have you observed the type of rent concession described in Spotlight 6.1?***

***(b) Have you observed diversity in how lessees account for rent concessions that has had, or that you expect to have, a material effect on the amounts reported, thereby reducing the usefulness of information?***

***(c) If your view is that the IASB should act to improve the clarity of the requirements, please describe your proposed solution and explain how the benefits of the solution would outweigh the costs.***

No comments on this question

#### **Question 6.2 — Applying IFRS 16 with IFRS 15 when assessing whether the transfer of an asset in a sale and leaseback transaction is a sale**

***(a) How often have you observed difficulties in assessing whether the transfer of an asset in a sale and leaseback transaction is a sale?***

***(b) Have you observed diversity in seller-lessees' assessments of the transfer of control that has had, or that you expect to have, a material effect on the amounts reported, thereby reducing the usefulness of information?***

***(c) If your view is that the IASB should act to help seller-lessees determine whether the transfer of an asset is a sale, please describe your proposed solution and explain how the benefits of the solution would outweigh the costs.***

No comments on this question

**Question 6.3 — Applying IFRS 16 with IFRS 15 to gain or loss recognition in a sale and leaseback transaction**

***(a) Do you agree that restricting the amount of gain (or loss) an entity recognises in a sale and leaseback transaction results in useful information?***

***(b) What new evidence or arguments have you identified since the IASB issued IFRS 16 that would indicate that the costs of applying the partial gain or loss recognition requirements, and the usefulness of the resulting information, differ significantly from those expected?***

***(c) If your view is that the IASB should improve the cost–benefit balance of applying the partial gain or loss recognition requirements, please describe your proposed solution.***

No comments on this question

**Question 6.4 — Other matters relevant to the assessment of the effects of IFRS 16**

***Are there any further matters the IASB should examine as part of the post-implementation review of IFRS 16? If so, please explain why, considering the objective of a post-implementation review as set out on page 5.***

No comments on this question



Monday, 15 September 2025

## **Preliminary Staff Views: NZ IFRS 16 Leases**

This document contains preliminary staff views in response to the External Reporting Board's (XRB) [request for feedback on NZ IFRS 16 Leases](#), to inform XRB's submission to the International Accounting Standard Board's Request for Information on IFRS 16 *Leases*.

These views are informed by direct outreach and consultation with stakeholders, as well as discussions held in technical and professional forums.

### **Overall view**

Our overall view is that NZ IFRS 16 achieves its technical objective of providing relevant and faithful representation of lease transactions, with users affirming its usefulness. Despite benefits such as improved data quality and coordination, the cost and complexity of compliance are widely seen as disproportionate. There is minimal appetite for fundamental change, but strong support exists for targeted improvements, clearer guidance in judgement-heavy areas, and simplification where feasible.

### **New Zealand-specific matters of interest**

#### ***Topic 1: Cost-benefit of ongoing compliance***

- Stakeholder feedback indicates that the ongoing compliance burden of NZ IFRS 16 remains significant for many preparers, particularly among closely held large NZ companies where external users of the financial statements are limited.
- Some of these preparers apply NZ IFRS 16 adjustments only at year-end, rather than integrating them into the general ledger throughout the year, suggesting that NZ IFRS 16 has minimal benefits in an entity's day-to-day operations.
- Feedback suggests that a significant portion of the ongoing compliance costs stem from the complex systems and processes required to maintain accurate data.
- Several preparers highlighted that existing systems are not fully equipped to handle the intricacies of NZ IFRS 16, leading to reliance on manual spreadsheets and controls, which increases the risk of error and compliance costs.
- Some entities report that the complexity of NZ IFRS 16 necessitates dedicated full-time staff. Alternatively, some entities engage external consultants to manage lease accounting on their behalf. While this can address internal capability gaps, it often comes at a considerable additional cost.

- Auditors have noted that lease accounting consumes a substantial portion of audit effort. This is often due to preparer misinterpretation or misapplication of the standard, resulting in frequent adjustments and increased audit scrutiny.
- Most users believe that NZ IFRS 16 results in relevant information that faithfully represents lease transactions, agreeing that leases should be treated as debt-like obligations. However, some will “back out” or request pre-NZ IFRS 16 figures for certain purposes (see Topic 5).

### **Topic 2: Discount rates**

- When surveyed in our IFRS 16 roundtables, participants unanimously reported using the incremental borrowing rate (IBR) rather than the interest rate implicit in the lease (IRIL).
- The main reason provided was that the IRIL could not be readily determined in many of their leases, notably that information about the lessor’s direct costs was not available, necessitating the use of IBR under NZ IFRS 16.26. Some respondents indicated that the IBR is readily available, whereas the IRIL requires calculation and therefore adds further complexity to an already resource-intensive standard.
- It was also noted that determining an accurate IBR can be particularly challenging for entities with little or no borrowing history upon which to base their determinations. Benchmarking against other entities can be similarly difficult due to limited reliable publicly available data, or unique operations making direct comparisons impractical.
- Despite the above point, we heard from several preparers and auditors that it is generally accepted that the IBR determined may not be entirely accurate but consider the impact immaterial.
- Stakeholders indicated that simplified principles and clearer guidance would be welcomed, including illustrative methodologies for estimating IBR in the absence of direct borrowing data, and guidance on acceptable proxies such as government bond rates or commercial lending rates, where appropriate. In addition, the XRB could consider whether relief could be provided to permit the use of a bank borrowing rate in circumstances where an entity is unable to reliably determine an IBR.

### **Topic 3: Long-term property leases**

- Under NZ IFRS 16, lease liabilities are measured in a way that results in interest being recognised over time, even though lease payments are not interest-bearing. In very long-term leases with low initial payments, this can lead to interest expense exceeding repayments in early years, which may be misinterpreted by users as a failure to meet obligations. For transparency, there could be an optional disclosure clarifying that interest is not payable on the lease and the amount is to reflect the time value of money.

**Topic 4: Disclosure practices and comparability**

- As lessees prepare disclosures to meet the needs of their users, some variation is permitted under NZ IFRS 16, which allows flexibility in how the disclosure objective in paragraph 51 is achieved.
- Closely held NZ companies may provide more summarised or tailored lease disclosures, as key users including private shareholders and directors typically receive detailed financial information through internal management reports and board meetings. This can reduce comparability with those reporting to public shareholders.
- We heard from several stakeholders that preparing detailed disclosures is one of the more resource intensive practices when applying NZ IFRS 16. Entities with limited finance teams or technical expertise may opt for more streamlined disclosures, where suitable for users' needs, to manage workload.
- While NZ IFRS 16 requires disclosure of excluded variable lease payments, the usefulness of this information depends on how clearly and consistently it is presented. Some stakeholders suggested introducing clearer criteria to distinguish between truly variable payments and in-substance fixed payments.
- Some investors expressed that disclosure of non-cash movements would make it easier to compare cash flow statements across entities. This would be of particular use for assessing debt-like obligations and understanding the true cash impact of leases. However, we acknowledge that it is challenging to balance the need for detailed disclosures that support user analysis with the risk of overwhelming financial statements and obscuring material information, as cautioned in NZ IFRS 16.7(e).
- Users such as analysts, investors and lenders expressed that the maturity analysis disclosure in NZ IFRS 16.58 is particularly valuable as it provides forecasted lease payments, which is critical for assessing loan serviceability and cash flow.
- Certain users suggested that disclosing the useful life of leased assets would improve comparability by providing a clearer indication of the period over which the asset is expected to generate value irrespective of differences in lease structuring across entities.

**Topic 5: User adjustments to reported figures**

- Despite the goal of NZ IFRS 16 to improve transparency and comparability, we have heard that analysts and professional investors often request pre-NZ IFRS 16 data, or adjust figures to remove the standard's effect, believing this gives a fairer view of an entity's performance and liquidity.
- Common reasoning is that certain metrics are skewed by the application of NZ IFRS 16. This includes generalised metrics such as Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA), Return on Assets (ROU) and various debt

ratio calculations, and extends to sector-specific metrics. For instance, Net Operating Income in the real estate industry is often adjusted for the capitalisation of leases.

- Internal management reporting or performance measures often apply a cash-based view, reinforcing our point in Topic 1 that NZ IFRS 16 offers limited practical benefits for entities in their day-to-day operations. In many cases, it appears the standard adds complexity without delivering meaningful improvements for preparers or users.
- We acknowledge that users have diverse information needs, and it is not realistic to expect a single accounting standard to meet all of them. On balance, stakeholders advised that NZ IFRS 16 improves the quality and completeness of financial information. Historically, users often removed finance leases from analyses, complicated by differing lease classifications. NZ IFRS 16 has streamlined this by requiring a consistent approach for all leases.
- Suggestions for additional disclosures that may support specific user needs are outlined in our final point under Topic 4.

### **IASB Request for Information**

#### **Question 1: Overall assessment of IFRS 16**

- Many stakeholders agreed that IFRS 16 meets its technical objective of providing relevant information that faithfully represents lease transactions.
- While IFRS 16 provides a more comprehensive view of lease obligations than IAS 17, several preparers and users indicated that pre-IFRS 16 figures better reflect an entity's cash position and are therefore preferred for internal decision-making, performance monitoring, and external financing and valuation considerations.
- The indirect benefit of IFRS 16 leading to improvements in data quality and interdepartmental coordination have been acknowledged, but many stakeholders believe the cost of compliance remains disproportionate to the benefits.
- While there is a minimal appetite for fundamental change due to potential disruption, stakeholders support clarification of requirements, additional guidance in judgement-rich areas, and simplification where possible.
- In a poll of over 900 Chartered Accountants at a July 2025 webinar, we gathered targeted insights on the implementation and impact of IFRS 16. The following tables summarise the member responses:

***Do you agree that bringing all leases on the balance sheet has improved the quality and comparability of financial statements?***

■ Strongly agree ■ Agree ■ Neither agree or disagree ■ Disagree ■ Strongly disagree



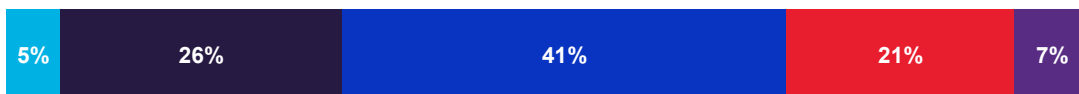
***How would you rate the ongoing cost of applying IFRS 16 Leases compared to expectations?***

■ Much higher than expected ■ Higher than expected ■ As expected ■ Lower than expected



***Do you believe the benefits of IFRS 16 Leases exceed the costs?***

■ Strongly agree ■ Agree ■ Neither agree or disagree ■ Disagree ■ Strongly disagree



***Question 2: Lessees' application of judgement***

- Broadly, stakeholders agreed that lessees' application of judgement reduces comparability across entities, thereby reducing the usefulness of the financial information. In addition, the complexity increases preparation and audit costs.
- Areas of specific concern include determination of lease term, discount rates, variable lease payments, and the distinction between reassessment versus modifications.
- **Lease term:** Significant ambiguity exists around assessing the "reasonably certain" threshold for determining lease term, especially in the context of incentives, extension options, and informal or undocumented arrangements. Clearer guidance and illustrative examples are needed to support consistent interpretation.
- **Discount rates:** Many preparers default to using their incremental borrowing rate (IBR) to calculate the discount rate as the information required to calculate the interest rate implicit in the lease is not as readily available. Reference benchmarks or simplified methodologies would assist smaller entities.

- **Variable lease payments:** Payments that appear variable but are economically unavoidable require nuanced interpretation and are often inconsistently applied. While IFRS 16 requires disclosure of excluded variable lease payments, the usefulness of this information depends on how clearly and consistently it is presented. It was suggested to introduce clearer criteria to distinguish between truly variable payments and in-substance fixed payments, particularly for market rent reviews and CPI-linked adjustments.
- **Reassessment or modification:** The distinction is complex, often unclear in practice, and may be unnecessarily burdensome. Stakeholders have called for explicit criteria or decision trees to guide the determination.

### **Question 3: Cash flow**

- Users have indicated a preference for presenting the principal and interest components of lease payments within the same category in the cash flow statement. While IAS 7.31 does not specify a classification for interest paid, grouping the components may improve understandability of the complete transaction.
- Some stakeholders feel the current cash flow presentation of principal payments under financing activities does not always align with the entity's business operations (especially in industries like retail and telecoms). It was suggested that flexibility is permitted in the classification of such lease-related cash flows, possibly drawing on the concept in IFRS 18.50 allowing entities with specified main business activities to classify certain income and expenses in the operating category, even if they would otherwise be classified as investing or financing.
- Classification as financing activities has made it more complex for certain key users (banks, investors, valuers) to compare entities, leading to requests for pre-IFRS 16 adjusted figures.
- We recommend that lease-related cash flows be explored further as part of the IASB's [Statement of Cash Flows and Related Matters](#) project.

### **Question 4: Ongoing costs**

- The IASB anticipated that ongoing costs would be little more than IAS 17 depending on the entity's software (i.e., whether the entity could extend its existing software, or if they needed to migrate to a new system, either entirely or just for lease accounting) and number of leases. Many stakeholders advised that they continue to incur high ongoing costs and see limited benefits.
- Specialist software, outsourcing, or dedicated lease accounting staff are often required to manage the complexity of lease accounting, all of which are costly.
- Main drivers of ongoing costs include initial and subsequent measurement, collection of disclosure information, and determination of discount rate and lease term.



- IFRS 16 issues contribute to a large portion of audit time and cost, with many queries and findings arising from misunderstanding of principals or application of judgment.
- Annual CPI-based lease liability adjustments are operationally burdensome; the US GAAP approach, which does not require remeasurement unless the lease is modified, is more practical.

**Question 5: Transition requirements**

- The first year of reporting under IFRS 16 was particularly challenging due to the volume and complexity of data required, especially for entities with large lease portfolios.
- The practical expedients and exemptions, such as for low-value and short-term leases, significantly assisted in reducing the implementation burden both during the initial transition and ongoing compliance.
- Transition guidance or instructions issued by the IASB, well before the standard was effective, would have been helpful to assist preparers collect new data, and update systems and processes.
- Several stakeholders noted that specialised software solutions were not available in time for the standard's effective date. As a result, some entities had to adopt a two-phased implementation approach and initially rely on manual workarounds or interim systems before transitioning to purpose-built software once available. A longer lead time may have enabled providers to develop and release appropriate tools prior to the effective date, easing the transition burden.

**Question 6.1: Rent concessions**

- The specific scenario in Spotlight 6.1 is not common amongst those consulted.
- Broadly, it was agreed there is a lack of guidance on distinguishing between a lease modification as defined in IFRS 16 and an extinguishment (or partial extinguishment) of a lease liability accounted for in accordance with IFRS 9.
- We support the IFRS Interpretations Committee's recommendation for the IASB to conduct a narrow-scope standard-setting project to clarify this distinction.

**Question 6.2 & 6.3: Sale and leaseback transactions**

- Stakeholders confirmed it is difficult to determine whether the transfer of an asset by the seller-lessee in a sale and leaseback transaction is a sale in accordance with IFRS 15. Additional illustrative examples or decision trees may assist in determining whether a sale has occurred.
- Restricting the gain or loss an entity recognises in a sale and leaseback transaction was broadly supported.

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15 September 2025

Carolyn Cordery  
 Chair, New Zealand Accounting Standards Board  
 External Reporting Board  
 Level 6, Featherston Street  
 Wellington 6011

Via email submission: [accounting@xrb.govt.nz](mailto:accounting@xrb.govt.nz)

### Request for Information - Post-implementation Review of IFRS 16 Leases

Dear Carolyn

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 Request for Information - Post-implementation Review of IFRS 16 Leases (the RFI). We make this submission on behalf of our members and in the public interest.

In preparing our response to these questions, CPA Australia has undertaken extensive outreach to gather feedback across a wide spectrum of stakeholders. This has included:

- Joint research with the University of Melbourne, including a benchmark analysis of a sample of Australian listed companies (**Attachment B**). Given the close alignment of NZ IFRS 16 with IFRS 16 and the similarities in reporting practices across the Australian and New Zealand capital markets, we consider that the findings from this research are relevant and provide valuable insights to the RFI.
- Engagement with members of CPA Australia including the CPA Australia Reporting and Assurance Centre of Excellence
- 3 co-hosted roundtables with the Australian Accounting Standards Board (AASB), the New Zealand External Reporting Board (XRB) and Chartered Accountants Australia and New Zealand (CA ANZ).

In addition, our analysis draws on topics and concerns identified through our previous submissions, ensuring continuity and a robust evidence base. Taken together, this approach has allowed us to capture a comprehensive set of perspectives that reflect the overall impact, practical challenges and implications of applying the NZ IFRS 16 *Leases* (equivalent to the IFRS 16 *Leases*).

CPA Australia is in the process of preparing a separate submission to the IASB in response to its request for information as part of the IFRS 16 post implementation review. Our submission to the IASB is still progressing and we have attached the draft submission to the IASB for your consideration (**Attachment C**).

We set out below our high-level comments and recommendations based on the feedback received:

- **Overall, NZ IFRS 16 is meeting its objective:** the standard is meeting its objective and providing overall improvement to the quality and comparability of financial information about leases.
- **Explore simplification and reliefs:** particularly in areas such as discount rate determination, long-term property leases and low-value leases, where costs and complexity remain disproportionate.
- **Clearer, sector-specific guidance:** with practical examples to reduce inconsistency in applying requirements on lease definition (e.g., substantial substantive rights), lease-term assessment, lease reassessment vs. modifications, lease incentives, and sale-and-leaseback transactions, as well as improving disclosure practices (e.g. cash flow classification) to better reflect how users assess lease information.

**Attachment A** sets out CPA Australia's detailed responses to the questions in [RFI](#). We have also included CPA Australia Research Report 1 (**Attachment B**) and a draft submission to the IASB's IFRS16 PIR (**Attachment C**) to support the comments provided in this submission. Should you have any questions or wish to discuss further, please contact Ram Subramanian, Financial Reporting Lead at [ram.subramanian@cpaaustralia.com.au](mailto:ram.subramanian@cpaaustralia.com.au).

Yours sincerely

**Elinor Kasapidis**  
Chief of Policy, Standards and External Affairs  
CPA Australia

# Attachment A: CPA Australia's Response

## 1. Cost-benefit of ongoing compliance

### 1.1 Feedback requested from Preparers

**We seek feedback on whether ongoing NZ IFRS 16 compliance costs remain significant for preparers, what the main sources of these costs are, and whether they are proportionate to the benefits.**

Feedback received through our co-hosted roundtables with the AASB, XRB and CA ANZ, together with commissioned research conducted with the University of Melbourne, suggests that the standard is generally operating as intended for larger organisations. However, ongoing compliance costs remain a concern for some preparers, particularly smaller entities. This concern arises primarily with Australian non-listed entities complying with the standard's full recognition and measurement requirements, and smaller Australian listed entities.

Our research into Australian listed entities (**Attachment B**) provides useful insights given the close alignment of NZ IFRS 16 with IFRS 16 and the similarities in reporting practices across Australian and New Zealand capital markets. Data from the research shows that the number of listed entities recognising lease liabilities has increased significantly since adoption of the standard and has remained consistently high between 2021 and 2024. Leases were identified as a Key Audit Matter (KAM) in only 4% of audit reports across Australian listed companies, concentrated in consumer sectors with high exposure to retail premises. This indicates that IFRS 16 does not create significant challenges from an audit perspective, and its requirements can generally be absorbed within existing reporting processes.

However, stakeholder feedback from outreach activities highlights some concerns areas for improvement:

- **Contradictions in requirements:** Some requirements (e.g. discount rates) demand precise calculations while others (e.g. portfolio application) allow broad judgment, contributing to higher ongoing costs without clear benefit.
- **Higher relative cost on smaller listed entities:** Larger organisations are generally able to absorb the requirements with access to better systems and resources, while smaller entities face disproportionately high costs. Lease calculations relating to remeasurement are not as reliable with less sophisticated software solutions, forcing more manual intervention, and compliance costs represent a significant proportion of resources relative to firm size.
- **Complexity versus substance:** Some stakeholders have expressed a view that IFRS 16 transforms what are, in practice, straightforward rent payments into a complex series of accounting entries (right-of-use assets, liabilities, interest expenses, and amortisation costs). They view this as detached from the commercial substance of leases, particularly for smaller entities. Moreover, banks and internal management often reverse or ignore the adjustments, focusing instead on cash flows. This raises some concern that the ongoing costs of complying with IFRS 16 are higher than anticipated, with some estimating compliance with IFRS 16 drives around 20% of audit fees.
- **Lack of a clear benchmark for costs:** Stakeholders noted that while most preparers agree compliance costs are higher than anticipated, it is difficult to assess whether these costs are truly "excessive" in the absence of a clear benchmark of what ongoing costs were expected to be. This lack of a reference point makes evaluation inconsistent and subjective.

In summary, while IFRS 16 has not led to unexpected burdens from an audit perspective, preparer feedback underscores concern around the uneven distribution of costs, the limited relevance of some information for users, and the lack of benchmarks for assessing proportionality. We encourage the XRB and IASB to consider whether additional simplifications or reliefs are warranted for smaller entities, whether requirements could be better aligned with the economic substance of leases, and whether clearer expectations around ongoing costs should be developed to support future evaluations.

### 1.2 Feedback requested from Users

**We are interested in how NZ IFRS 16 information is used to assess financial position and performance, and its value for analysis and decision-making.**

Overall, we consider that the usefulness of information arising from NZ IFRS 16 is broadly consistent with expectations, in that it has improved transparency and provided users with a clearer picture of lease-related obligations. Our outreach through the co-

hosted roundtables revealed that the perceived usefulness of lease information varies significantly between different categories of users:

- **Divergent stakeholder perspectives:** Some preparers and auditors view the information as burdensome or less relevant to decision-making, whereas others—such as credit rating agencies—value it highly, as it aligns with their long-standing practice of capitalising lease commitments. This suggests that usefulness depends on the stakeholder’s perspective and objectives.
- **Banks and internal management:** Some banks and internal management teams routinely exclude IFRS 16 information, focusing instead on cash flows and future lease commitments (for further details please see Question 4.2 below). This practice indicates that for certain key users, the usefulness of IFRS 16 arising from information may not be as high as expected.
- **Analysts and transaction-focused users:** Feedback also indicated that analysts often find the information more difficult to reconcile for comparability and valuation purposes, particularly in merger and acquisition scenarios. This adds complexity to their work and may reduce the perceived usefulness of the information.

## 2. Discount rates – use of interest rates implicit in the lease (IRIL) and incremental borrowing rates (IBR)

### 2.1 Feedback requested from Preparers

**Most entities use IBR rather than IRIL for discount rates. We want to know the reasons for this, any challenges in determining discount rates, and details of the methodologies used.**

### 2.2 Feedback requested from Users

**We seek views on the usefulness of specific, quantified discount rates and clear explanations of how rates are determined for comparing lease obligations.**

In responding to Question 2.1 and 2.2, feedback from our co-hosted roundtables indicates that discount rate determination continues to be a judgement-intensive and challenging areas of applying IFRS 16.

In practice, entities overwhelmingly default to using the IBR as the interest rate implicit in the lease is rarely observable, particularly for property leases. Determining the IBR requires assumptions about credit risk, lease term, and prevailing financing conditions, which introduces significant subjectivity and variation in application. Stakeholders consistently reported that methodologies differ across entities, often reflecting internal policies rather than consistent market benchmarks. While some suggested that portfolio-based approaches (e.g., applying standardised rates for common lease tenors) could improve comparability, most systems are not designed to operationalise this efficiently, resulting in manual workarounds and further inconsistency. Further details on comparability challenges arise from system limitations can be referred to Question 4.1 below

From a preparer perspective, this reliance on the IBR creates additional compliance costs and complexity. For smaller entities in particular, the need to estimate and document discount rate methodologies places a disproportionate burden (as explained in Question 1.1 above).

From a user perspective, views on the usefulness of discount rate disclosures are mixed. Some investors and credit rating agencies value transparency around quantified rates and methodologies, as this assists in understanding assumptions underlying lease liabilities. However, banks and internal management teams generally prioritise cash flow commitments and often disregard IFRS 16 adjustments, limiting the perceived relevance of detailed discount rate disclosures. Analysts also noted that variation in methodologies reduces comparability across entities, making it harder to incorporate lease obligations consistently into valuation or transaction models.

As such we suggest that the XRB and IASB explore whether further guidance or simplifications, such as clearer parameters for applying portfolio-based rates or sector benchmarks, could reduce cost and improve comparability, without undermining the principle of faithful representation.

### 3. Long-term property leases

#### 3.1 Feedback requested from Preparers

**Long-term leases are common in NZ. We want to understand the practical, measurement, and judgement challenges in managing and accounting for these leases, and whether current requirements are fit for purpose.**

For long-term leases, we consider the requirements around lease-term assessment, lease modifications, and sale-and-leaseback transactions to be complex and judgement-intensive for NZ IFRS 16.

**Lease term assessment:** Stakeholders highlighted that determining lease term remains a highly judgemental and resource-intensive exercise. In particular, the assessment of whether extensions are “reasonably certain” varies significantly across entities. For long property leases, such differences can materially affect reported assets, liabilities, and performance ratios (e.g., return on assets), undermining comparability. Retail and infrastructure leases were cited as areas where interpretation varies most widely. Feedback strongly supports the need for more integrated and practical guidance, with sector-relevant examples for land and building leases.

**Lease modifications:** Preparers frequently confuse lease modifications with remeasurements, especially for CPI-driven rent resets or umbrella agreements spanning multiple assets. Some preparers incorrectly update discount rates for remeasurement events, adding unnecessary ongoing cost and inconsistency. From an auditing perspective, distinguishing modifications from remeasurements is a recurring source of difficulty and can lead to disagreements between preparers and auditors.

**Sale-and-leaseback transactions:** Although limited feedback was received on this matter, preparers observed that sale-and-leaseback transactions involving property are one of the more complex areas. The main challenge lies in assessing whether the transfer constitutes a “true sale.” With IFRS 16 relying heavily on the transfer-of-control framework in IFRS 15, entities face uncertainty, particularly where only part of a building or infrastructure asset is transferred. These difficulties have given rise to diversity in practice, with some entities recognising sales and others treating them as failed sales, leading to inconsistent recognition of gains, losses, and lease liabilities. This divergence reduces comparability and the usefulness of reported information.

Stakeholders recommended clearer, dedicated guidance in IFRS 16 for sale-and-leaseback arrangements, including:

- Clarifying the criteria for assessing whether a transfer is a true sale or a failed sale, possibly by embedding principles similar to those used in IFRS 3 for valuing asset acquisitions as part of business combinations, which separate different transaction components.
- Providing guidance on how to treat subsequent events or modifications — i.e., whether and when reassessment or modification is required.
- Addressing conceptual inconsistencies between IFRS 15, IFRS 9 and IFRS 16, so preparers are not left unclear on which path to follow for specific fact patterns.
- Developing and providing further illustrative examples, including for partial asset transfers and hybrid arrangements (e.g., one floor of a building), to improve comparability in practice.

#### 3.2 Feedback requested from Users

**We are interested in what information about long-term leases is most useful for understanding financial position, risk, or future cash flows.**

No further comment.

### 4. Disclosure practices and comparability

#### 4.1 Feedback requested from Preparers

**There is variation in the level of detail provided in lease disclosures. We seek reasons for this variation (e.g., materiality, system limitations), challenges in preparing disclosures, and whether it affects comparability and transparency.**

As noted in our cover letter and in our above response to Question 3.1, there are inconsistencies in how the accounting requirements are applied by preparers (e.g., lease definition, lease-term assessment, lease reassessment vs. modification, sale-and-leaseback etc.). These inconsistencies in how the accounting requirements are applied may also lead to inconsistencies in the related note disclosures.

We also received feedback that many lease accounting systems are not fully capable of handling complex arrangements such as lease modifications, variable lease payments, subleases, and sale-and-leasebacks. As a result, preparers often resort to manual adjustments outside the system, which increases the risk of inconsistency and error. Differences in system design, where some focus on asset management of lease contracts and others on accounting calculations, also lead to divergent outcomes in disclosure quality and level of detail.

#### **4.2 Feedback requested from Users**

**We want to know which lease disclosures are most useful, and if any areas are inadequate or need improvement.**

Overall, stakeholders acknowledged that NZ IFRS 16 has improved transparency and comparability of lease-related disclosures. However, feedback from our co-hosted roundtables indicates that the usefulness of these disclosures varies significantly across different user groups. While some users find the information helpful, others either adjust or disregard it, limiting its practical value for decision-making. This suggests that, although statutory reporting has improved, further clarity and consistency in certain areas (such as cash flows disclosures) would enhance decision-usefulness.

**Relevance for key stakeholders:** Some banks and analysts indicated that they routinely exclude lease-related information when monitoring debt covenant compliance or assessing performance. Instead, they place greater weight on disclosures of future lease commitments and cash flow information. Similarly, many preparers reverse lease-related information in external market communications, e.g. presenting EBITDA and cash flows on a pre-IFRS 16 basis, to maintain consistency with peers, competitors, and US GAAP reporters. This suggests that, while statutory comparability has improved, decision-usefulness for certain stakeholders is reduced, as leases continue to be viewed in practice as an operating expense rather than a financing activity.

**Cash flow disclosures:** Users noted that overall, IFRS 16 has enhanced visibility of lease-related cash flows. However, concerns were raised about inconsistency in classification within the cash flow statement, particularly in separating operating and financing cash flows. Some stakeholders observed that the distinction between assets acquired through debt financing (legacy finance leases) and assets rented for operational purposes (legacy operating leases) has become blurred. From a user's perspective, this treatment adds complexity to what is often viewed commercially as a straightforward rental cost.

Our comments based on divergent stakeholder perspectives can also be referred to in our response to Question 1.2.

## **5. User adjustments to reported figures**

### **5.1 Feedback requested from Preparers**

**We seek preparer views on what lease information users (including banks and lenders) request, whether users ask for information beyond NZ IFRS 16 disclosures, and if different or additional information is needed to meet user needs.**

Please refer to our responses to Questions 1.2 & 4.2.

### **5.2 Feedback requested from Users**

**We want to understand why users adjust for NZ IFRS 16, what information is lacking, and how presentation or disclosure could be improved.**

Apart from our comments noted in our responses to Questions 1.2, 4.2 and 5.1, our commissioned research (**Attachment B**) shows variability in how lease liabilities are treated in performance metrics. Among the largest lease-intensive firms, most include lease liabilities in Return on Invested Capital (ROIC) calculations, while a notable minority exclude them. Inconsistencies in how lease-related information is included in management performance measures could create a risk of divergent or potentially misleading performance measures, particularly when IFRS 16-based figures are presented alongside non-IFRS or "management" performance measures. These risks are likely to increase with the introduction of IFRS 18 on Presentation and Disclosure in Financial Statements, which places greater emphasis on transparent reporting of management-defined performance measures.

# CPA Australia Leases Research Report 1

IFRS 16 *Leases*: A review of  
implementation and  
effectiveness



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# Executive summary

This report provides an overview of the impact of adopting IFRS 16 Leases (IFRS 16) in Australia. The Australian version of IFRS 16 is AASB 16 Leases (AASB 16). The objective of this report is to assess whether IFRS 16 is achieving its intended goals, when applied by Australian listed companies. The report focusses on three key areas of IFRS 16 implementation in Australia:

- a. Lease recognition: The frequency and magnitude of lease liability recognition following the adoption of IFRS 16;
- b. Key Audit Matters: The frequency and nature of lease-related Key Audit Matters (KAMs) disclosed in 2024 audit reports; and
- c. Management commentary: Whether firms include lease liabilities in the denominator (invested capital) when voluntarily reporting Return on Invested Capital (ROIC) in the management commentary section of annual reports.

## Lease recognition

The data show a sharp increase in recognition, with the proportion of firms reporting lease liabilities, rising from 42% prior to IFRS 16 to approximately 90% post-adoption. This widespread recognition and economic materiality suggest that preparers have engaged with and operationalised the principles of IFRS 16. Moreover, the results indicate continued high level of compliance with the standard between 2021 and 2024, providing strong evidence that the standard's ongoing implementation costs are sustainable and in line with expectations.

## Key audit matters

In relation to KAMs, leases were identified as a KAM in only four per cent of audit reports across the sample. The small proportion suggests that lease accounting under IFRS 16 is not a significant source of audit complexity or cost.

## Management commentary

Finally, in relation to the reporting of ROIC, among the ten largest lease-intensive firms in Australia, 70% included lease liabilities in the ROIC denominator, consistent with the intention of IFRS 16 that leases are a source of funding and financial capital. This signals that many firms consider lease liabilities to be relevant and decision-useful for assessing financial performance, aligning with the objectives of IFRS 16. However, a notable minority (30%) excluded lease liabilities from the ROIC calculation. This practice has the potential to be misleading in relation to performance metrics.

## Conclusion

Overall, the evidence presented in this report supports the conclusion that IFRS 16 is achieving its intended objectives. The only area highlighted where further refinement is warranted relates to the treatment of lease liabilities in voluntary performance metrics such as ROIC. Given that ROIC is a key performance indicator used widely by analysts and investors, we recommend that the IASB address this issue through further guidance or educational material in relation to management commentary, or in IFRS 18 and related standards.

Addressing this issue would help ensure that the benefits of IFRS 16 in the primary financial statements are not undermined by selective reporting practices in management commentary.

# Background

There are two primary reasons for the University of Melbourne to undertake this current research project with the support of CPA Australia. Firstly, the research seeks to update previous research undertaken to understand impacts of the standard when it was issued. This initial research culminated in two research reports:

- [Implementing AASB 16 Leases: are preparers ready?](#)
- [AASB 16 Leases: investor perspectives](#)

Secondly, the current research project seeks to gather and present suitable empirical evidence to assist with the post implementation review of IFRS/AASB 16 being undertaken by the IASB/AASB.

This research report sets out findings from a benchmark analysis of listed companies that explores some potential disclosure impacts arising from the standard as described above. In addition to the findings from the benchmark analysis showcased in this report, the research project will also be informed by a series of roundtables to be conducted with various sector-based stakeholders to obtain further evidence of the impacts of the standard and opportunities for improvement. The aim of the research project is to make available further information to the standard-setters and other stakeholders as it becomes available, with a further report to be published in the first half of 2026.

## Introduction

The adoption of IFRS 16 *Leases* (IFRS 16) marked a pivotal shift in lease accounting, with the central aim of bringing greater transparency and comparability to financial statements by requiring lessees to recognise almost all leases on the balance sheet. The current International Accounting Standards Board (IASB) post-implementation review (PIR) evaluates the extent to which the standard is meeting these objectives, particularly in relation to its core principles, the informational value it provides to users of financial statements, and the costs incurred in its application, audit, and enforcement.

This report draws on data from Australian listed entities following mandatory adoption of IFRS 16 (AASB 16) and analyses the following focus areas:

- Lease recognition: The frequency and magnitude of lease liability recognition following the adoption of IFRS 16;
- Key Audit Matters: The frequency and nature of lease-related Key Audit Matters (KAMs) disclosed in 2024 audit reports; and
- Management commentary: Whether firms include lease liabilities in the denominator (invested capital) when voluntarily reporting Return on Invested Capital (ROIC) in the management commentary section of annual reports.

In analysing these areas, we aim to address the following three components of Question 1 in the IASB's Request for Information:

1. Whether the core principles of IFRS 16 are clear and are being met in practice;
- d. Whether the information provided about leases meets the needs of users; and
- e. Whether the costs of applying, auditing, and enforcing the standard are as expected.

These and other findings are expanded on in the remainder of this report which is structured as follows. Section 1 documents the frequency and magnitude of lease liability recognition under IFRS 16 for Australian listed companies. Section 2 documents the frequency and nature of the designation of leases

as a Key Audit Matter in the audit reports of Australian listed companies in 2024. Section 3 examines if management, for the purpose of reporting ROIC in the management commentary section of the annual report, include lease liabilities in the calculation of invested capital (i.e., the denominator of ROIC).

## Section 1: Frequency and magnitude of lease liability recognition

The core principle of IFRS 16 is that lessees should recognise assets and liabilities arising from leases unless the lease is of low value or short-term. This approach represented a shift from the previous distinction between operating and finance leases under IAS 17 *Leases* (IAS 17), which allowed many lease obligations to remain off-balance sheet. IAS 17 drew a distinction between finance and operating leases, and only required recognition of assets and liabilities arising from finance leases.

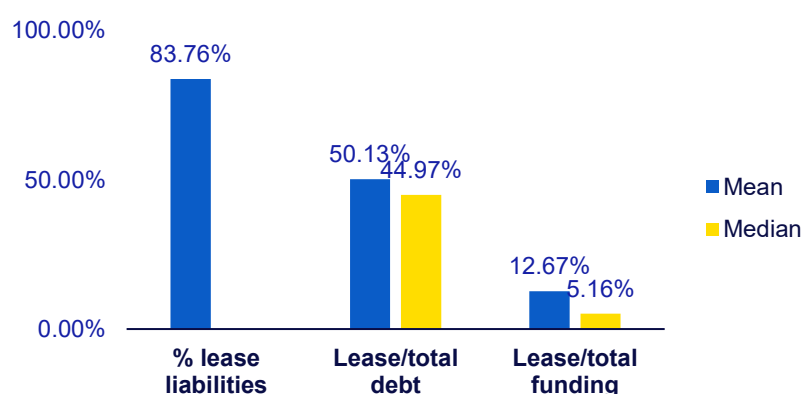
To address whether the core principles of IFRS 16 are clear and are being met in practice we analysed the frequency and magnitude of lease liability recognition under IFRS 16 across the period from the year of adoption in 2020 to 2024 for a sample of Australian firms<sup>1</sup> across the following:

- the frequency<sup>2</sup> and magnitude of lease liabilities recognised under IFRS 16 in 2024; and
- f. yearly time-series of the frequency and magnitude of lease liabilities since the adoption of IFRS 16 in 2020.

### Frequency and magnitude of leases liabilities – 2024 results

The following charts present the summary statistics for the sample as at 2024. The data these charts are based on are derived from Table 1 included in Appendix A to this report.

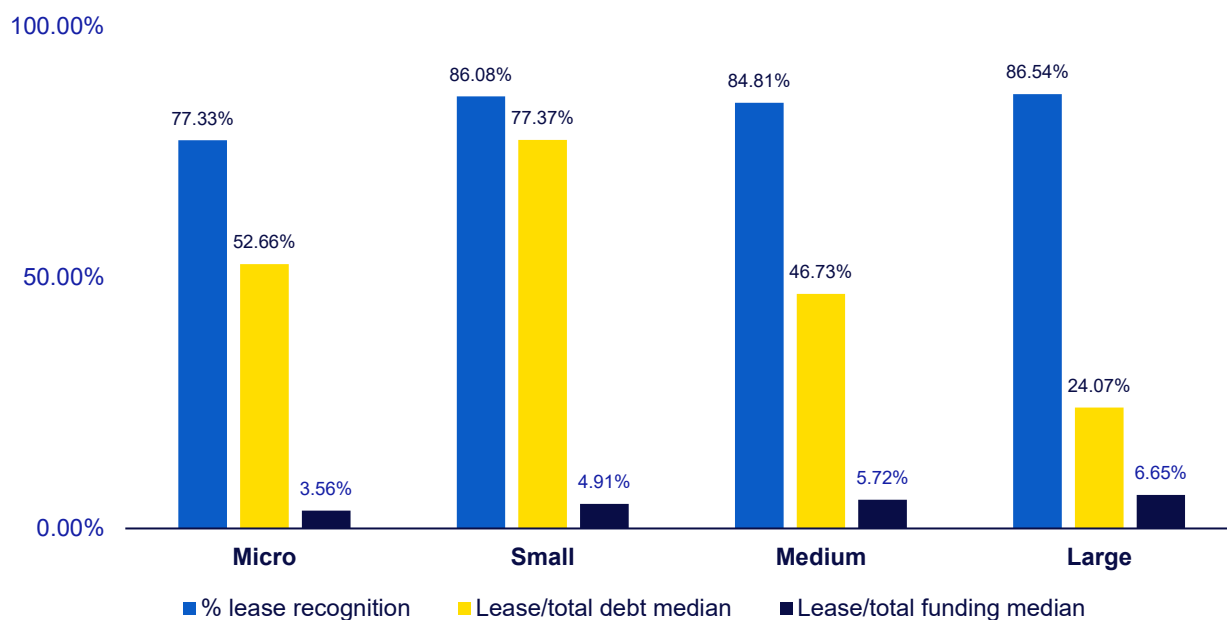
**Chart 1 - Frequency and magnitude of lease liabilities recognised by Australia listed companies - full sample**



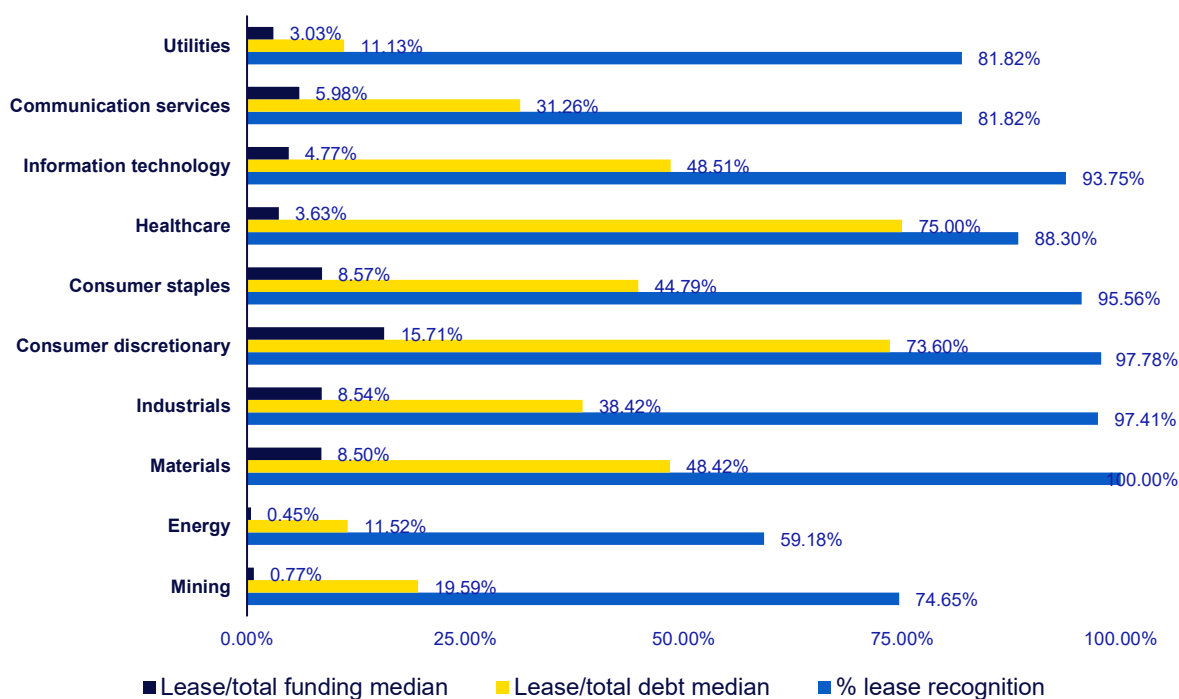
<sup>1</sup> See Appendix D for the sample construction.

<sup>2</sup> The frequency of recognition is simply measured as the number of firms that have recognised a lease liability as a percentage of the total sample of firms. The two metrics we use to assess magnitude are: (1) the value of lease liabilities as a percentage of total debt. Where total debt is the sum of borrowings and lease liabilities. The descriptive statistics for this metric are based on the sample of firms that have debt > 0 and thus is bounded between 0 and 100%, and (2) the value of lease liabilities as percentage of total funding where total funding is total debt plus total shareholder equity.

**Chart 2 - Frequency and magnitude of lease liabilities recognised by Australia listed companies - by entity size<sup>3</sup>**



**Chart 3 - frequency and magnitude of lease liabilities recognised by Australia listed companies - by sector**



<sup>3</sup> Firm size categories, based on total assets, are defined as follows: Micro – less than \$23 million; Small – \$23 million to less than \$102 million; Medium – \$102 million to less than \$593 million; Large – greater than \$593 million.

Our findings strongly suggest that the core principle of IFRS 16, capitalisation of leases, is both widely understood and implemented in practice. By 2024, 84% of firms in our sample recognised lease liabilities (Chart 1 above). Importantly, lease recognition rates were consistent across firm size categories. Even among micro-cap firms, 77% recognised lease liabilities in 2024, and among small to large entities, this figure was 86% (Chart 2 above). All sectors have a high level of lease recognition with the lowest being in the mining (75%) and energy sectors (60%)<sup>4</sup> (Chart 3 above). This widespread application indicates that the principle of capitalisation is understood and applied not only by large entities with sophisticated accounting functions, but also by smaller entities where accounting resources may be more limited.

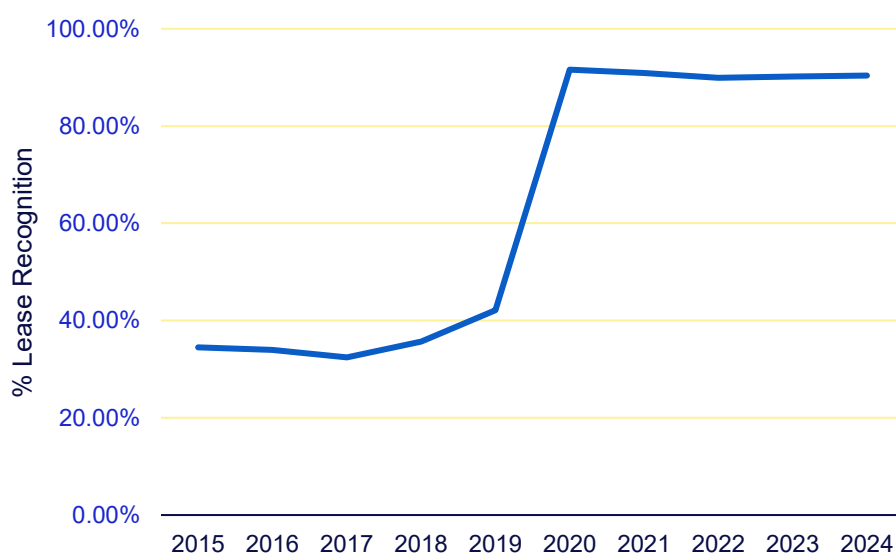
Moreover, the reported lease liabilities were economically material, as demonstrated by the magnitude of lease liabilities as a percentage of total debt for the median firm being 45%<sup>5</sup> (Chart 1 above).

Taken together, these findings support the conclusion that the core principle of lease capitalisation is not only clear but also being broadly applied consistently in practice. IFRS 16 is achieving its objective of bringing leases onto the balance sheet and improving the quality of financial statements.

### Changes across time in the frequency and magnitude of lease liabilities

To provide insight into the impact of IFRS 16, we also undertook a time-series analysis of lease liabilities from 2016 to 2024.<sup>6</sup> The results are presented in Table 2 (see Appendix A), and graphically in Figures 1 and 2 below.

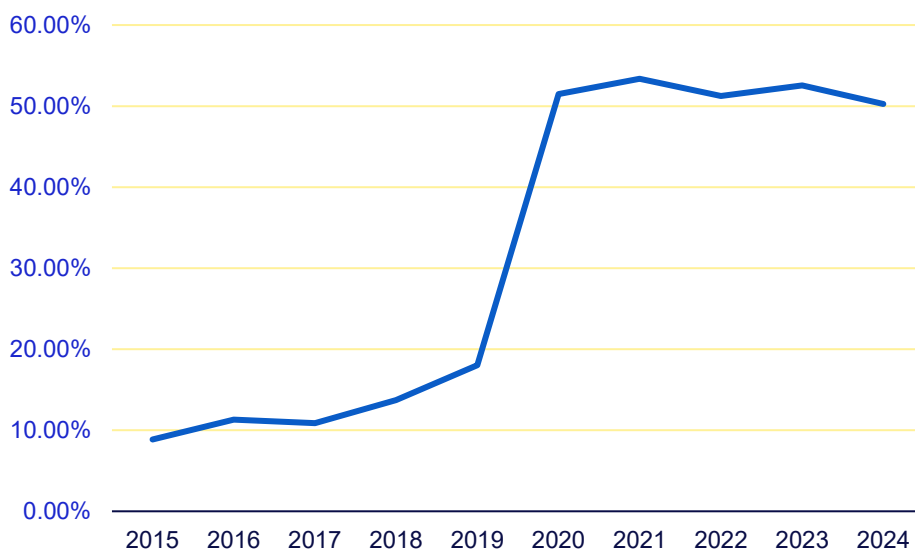
**Figure 1 – % Lease Liability Recognition**



<sup>4</sup> The sector with the greatest level of lease liabilities is the retail sector, where, in Australia, prime locations in shopping centres are typically held by property investors and must be leased rather than purchased.

<sup>5</sup> The *variation* in the magnitude of leases as a % of debt financing is substantial. As reported in Table 1 panel A the 25<sup>th</sup> (75<sup>th</sup> percentile) is 14% (97%). This implies that for 25% of firms, leases are the primary or only source of debt financing (>97% of debt financing is from leases) and for another 25% of firms' leases are a very low source of debt financing (<14% of debt financing is from leases).

<sup>6</sup> The analysis is restricted to firms that existed in all years of the sample period. This restriction ensures that observed changes are attributable to the adoption and application of IFRS 16, rather than to firms entering or leaving the listed population due to new listings or delistings. The data are reported by calendar year, based on the financial year-end of each firm. IFRS 16 became mandatory for financial years beginning on or after 1 January 2019. As a result, the calendar year 2020, which includes both 30 June and 31 December year-ends, represents the first full year of adoption for most Australian firms.

**Figure 2 – Lease Liability/Total debt**

A clear pattern emerges when comparing the year of adoption, 2020, to the preceding year, 2019. The proportion of firms recognising lease liabilities increased significantly from 42% in 2019 to 92% in 2020. In addition to this increase in frequency, there was a material change in the magnitude of reported lease obligations. The average ratio of lease liabilities to total debt rose from 18% in 2019 to 51% in 2020. This shift demonstrates that for the average firm, the capitalisation of leases had a substantial effect on reported leverage. These findings suggest that IFRS 16 impacted a broad cross-section of firms and materially changed the presentation of financial obligations. As such, they provide support for the view that the standard improves both the transparency and comparability of financial information.

Looking at the years following initial adoption, from 2021 through 2024, the percentage of firms recognising lease liabilities remained stable. Similarly, the average ratio of lease liabilities to total debt did not exhibit any material decline. This ongoing consistency suggests that firms have continued to comply with the requirements of IFRS 16 without withdrawing from recognition over time. The absence of any reduction in recognition implies that the costs of applying and complying with IFRS 16 have not deterred firms from ongoing compliance with the Standard nor led firms to alter financing arrangements significantly.

### Implications for standard-setting

These findings provide evidence that the ongoing costs of applying IFRS 16 are reasonable and appropriate; broadly consistent with the IASB's expectations. Two factors support this interpretation:

- First, compliance with IFRS 16 does not appear to deter the use of leases by either micro firms or firms for which lease liabilities represent only a small proportion of total debt. This suggests that even firms with limited resources or minimal lease exposure are able to comply with the standard without undue cost or burden.
- Second, the near-universal recognition of lease liabilities implies the presence of substantial scale economies. The widespread use of leases across firms likely facilitates the sharing or adoption of common systems, software, and accounting processes for lease recognition, thereby reducing the per-unit cost of compliance, particularly for property and buildings leases.

In addition, the consistently high level of lease liability recognition, along with the economically significant magnitude of lease liabilities for the typical firm, provides evidence that the information produced under IFRS 16 is materially relevant. This supports the view that the standard meets its objective of improving



the faithful representation of financial position and performance by bringing lease obligations onto the balance sheet.

Finally, the significant variation in the extent to which firms use leases as a source of debt financing indicates that IFRS 16 contributes meaningfully to improving the comparability of financial information. By requiring the recognition of lease liabilities, IFRS 16 enables users to better assess and compare the total level of financial leverage and associated risk across different firms and industries.

## Section 2: The frequency and nature of lease-related Key Audit Matters

The shift to on-balance sheet lease accounting was expected to improve the ability of users, especially investors, analysts, and creditors, to assess leverage, capital efficiency, and cash flow commitments. In this section of the report, we examine the frequency and nature of the designation of leases as a Key Audit Matter (KAM) in the audit reports of Australian listed companies.<sup>7</sup>

Audit reports offer a unique lens through which to observe the relative complexity and judgement involved in applying IFRS 16. Auditor's reports of listed entities in Australia are required to provide information about key audit matters (KAM). KAM are "those matters that, in the auditor's professional judgement, were of most significance in the audit of the financial statements of the current period".<sup>8</sup> The audit report is required to include a description of each key audit matter that addresses why the matter was considered to be one of most significance in the audit and therefore determined to be a key audit matter. This is the "Why Significant" section of the audit report.<sup>9</sup>

As KAMs are relative, if the costs and complexities of accounting for and auditing leases are larger than expected we should find an abnormal frequency of leases identified as a KAM. Furthermore, if the costs are larger than expected, the designated reasons for the KAM in the "Why Significant" section of the audit report should be for underlying reasons of judgment and uncertainty that were not expected.

Out of the full sample, only 4% of firms (17 companies) had an audit report in which leases were identified as a KAM subject matter. These firms are listed in Table 3 included in Appendix A. Across all firms, there were 955 individual KAMs reported in total; of these, only 17, or 2%, had leases as the subject matter. This makes lease-related KAMs relatively rare. The full list of KAM subject matters and their frequency is reported in Table 3 in Appendix A.

The results also showed a concentration for KAMs in certain sectors. Fifteen of the 17 firms with lease-related KAMs were in the consumer staples or consumer discretionary sectors. This may reflect the

<sup>7</sup> We sampled the full population of Australian listed entities (excluding mining, real estate and banking firms) with reporting periods ending in 2024. We categorised and classified the KAMs into subject matters based on the primary financial statement account that it related to (e.g., revenue, inventory, provisions, intangibles, leases). The details of the sample selection and methodology for classification of the KAMs is discussed in Appendix E. Overall, we have a final sample of 529 firms. We have classified 29 distinct KAM subject matters. As each audit report may have more than one KAM we have a total of 955 KAMs.

<sup>8</sup> ASA 701.8 *Communicating Key Audit Matters in the Independent Auditor's Report*. For audits of financial statements for periods ending on or after 15 December 2016, auditor's reports of all listed entities in Australia have been required to provide information about key audit matters.

<sup>9</sup> ASA 701.13. A full extract of an audit report with a lease as KAM is provided for illustrative purposes in Appendix B.

higher prevalence of leased assets in retail and franchise-heavy industries, where physical premises and equipment are commonly leased.

Taken together, these findings suggest that leases are not frequently regarded as a high-risk area requiring special audit focus. As such, there is no evidence from audit frequency that the cost and complexity of auditing lease-related disclosures under IFRS 16 has been greater than expected.

### Additional analysis

To explore the audit rationale for identifying leases as a KAM, we reviewed the “Why Significant” sections of the audit reports for all 17 firms. (See extracts in Appendix C). The rationale provided by auditors typically centred on two factors: the economic significance of lease liabilities, both in volume and value, and the requirement for management to make key judgments and estimates. Among the 17 firms, the most commonly cited area of audit judgment was the determination of the incremental borrowing rate used to discount future lease payments. Other areas, though less frequently mentioned, included the accounting treatment of backdated rent variations, the assessment of renewal options contained within leases, and the handling of sub-lease arrangements, particularly in franchise models.

Overall, the review of audit report disclosures did not identify any unexpected sources of estimation uncertainty or judgment that would suggest IFRS 16 presents unforeseen challenges in practice. The findings provide further support for the conclusion that the auditing of IFRS 16 lease obligations is operating as intended and without undue burden.

## Section 3: Computation of ROIC reported in management commentary

This section examines how companies treat lease liabilities when calculating Return on Invested Capital (ROIC) in the management commentary section of their annual reports. ROIC is widely regarded as a key performance measure for assessing the efficiency of capital use and value creation. The analysis focuses on whether lease liabilities recognised under IFRS 16 are incorporated into the denominator of ROIC, which reflects the total invested capital.

ROIC is a voluntary reported metric and, therefore, reflects the demand and needs of users. ROIC as following examples illustrate, is the most widely used metric to measure performance and productivity and thus the amount of value a company creates.<sup>10</sup>

*“Underlying return on capital employed is an indicator of the Group’s capital efficiency” (BHP, 2024, p18.)*

*“ROC has been adopted as the principal measure of performance for the divisions. ROC focuses the divisions on increasing earnings and/or increasing capital productivity by managing existing assets efficiently” (Wesfarmers 2024 Annual Report, p.16)*

<sup>10</sup> At a conceptual level the definition of ROIC is:

$$ROIC = \frac{\textit{Profit}}{\textit{Invested Capital}}$$

*“Underlying ROCE measures how efficiently we generate profits from investment in our portfolio of assets” (RIO Tinto, 2024, p.12)*

We examine if firms include or exclude lease liabilities in their definition of Debt for purposes of computing *Invested Capital* and *ROIC*. It is expected that lease liabilities would be included in the calculation as the objective of ROIC is to measure the returns on all capital invested in the business.

As outlined in the below Table4, the findings indicate that a significant majority, 70% of the sampled companies, include lease liabilities in the denominator of ROIC. This finding suggests that most firms consider lease liabilities to represent a meaningful component of financial capital. Their inclusion in invested capital supports a more accurate and reliable assessment of financial performance and capital efficiency, in line with the broader objectives of IFRS 16.

**Table 4 – Australian companies examined to determine if leases included in computation of ROIC<sup>11</sup>**

Company	Total Assets (\$m)	Leases Liabilities (\$m)	Lease liabilities / Total Funds	Lease included in ROIC?
Woolworths Group Limited	33,936	12,144	54.48%	Yes
Coles Group Limited	19,870	8,417	61.50%	Yes
Wesfarmers Limited	27,309	6,522	32.83%	No
Ramsay Health Care Limited	20,894	5,854	35.55%	No
Endeavour Group Limited	11,783	3,913	39.76%	Yes
BHP Group Limited*	102,362	3,116	4.46%	Yes
TPG Telecom Limited	19,094	2,205	12.62%	Yes
Woodside Energy Group Ltd	61,264	1,623	3.40%	Yes
Qantas Airways Limited	20,564	1,556	22.60%	Yes
Sonic Healthcare Limited	14,826	1,527	12.13%	No

\*Numbers quoted are in US Dollars

However, a notable minority, 30% of the sample, exclude lease liabilities from their ROIC calculations. This practice raises concerns regarding the comparability and reliability of ROIC as a performance metric across firms. When lease liabilities are excluded, ROIC figures may be overstated, potentially presenting a distorted view of how efficiently a company uses its capital.

This inconsistency suggests that, while IFRS 16 has significantly improved the quality of financial statements, the effectiveness of lease information in management commentary and voluntary

<sup>11</sup> The information in Table 4 has been extracted from the publicly available 2024 Annual Reports

performance metrics remains uneven. The divergence points to a possible gap in guidance under IFRS 18 and IFRS Practice Statement 1. In particular, paragraph 121 of IFRS 18 requires management performance measures to faithfully represent financial performance, which may not be achieved when lease liabilities are selectively excluded from capital-based metrics.

To address this issue, we suggest that the IASB explore available educational avenues, such as through IFRS Practice Statement 1 *Management Commentary* (revised), or other educational material to provide clearer guidance on the appropriate treatment of lease liabilities in performance metrics disclosed in management commentary.

The issue is not limited to the consideration of IFRS 16, however. It also intersects directly with the reporting of management-defined performance measures and disclosures related to capital, as outlined in IFRS 18 *Presentation and Disclosure in Financial Statements* which becomes effective in Australia for annual reporting periods beginning on or after 1 January 2027.<sup>12</sup> Arguably, the exclusion of lease liabilities from invested capital in ROIC calculations may conflict with the objectives of IFRS 18. Specifically, such reporting may not provide users with an unbiased, representative, and faithfully presented view of a firm's financial performance.

Given the significance of ROIC to financial analysis and investor decision-making, we recommend that the IASB consider this issue as part of the post-implementation review of IFRS 18, if not addressed earlier.

We conclude that IFRS 16 is fulfilling its intended objective of improving information quality in the primary financial statements. Nonetheless, there is room for improvement in ensuring that this enhanced transparency is carried through to performance reporting in management commentary.

## Conclusions and policy recommendations

The evidence presented in this report supports the conclusion that IFRS 16 has largely achieved its objectives. The requirement to recognise leases on the balance sheet has led to greater transparency and comparability in financial statements and has proven to be well-understood and applicable across a diverse range of entities. Auditors and preparers appear to be managing the judgements and estimates inherent in the standard without undue difficulty.

At the same time, our findings point to opportunities for improvement, particularly in the alignment of voluntary performance metrics with the principles of IFRS 16. Inconsistencies in the treatment of lease liabilities in metrics such as ROIC, despite their materiality, may undermine the comparability and reliability of management commentary. This is an area where further guidance or educational material in relation to management commentary, or in IFRS 18 and related standards would be beneficial.

Overall, we recommend that the IASB maintain the current scope and core principles of IFRS 16, which are being effectively applied in practice and provide additional guidance or examples to encourage the faithful representation of leases in management-defined metrics.

These measures would help ensure the full benefits of IFRS 16, going beyond the balance sheet to improve transparency, consistency and usefulness of financial reporting.

<sup>12</sup> See paragraphs 117–123 and 126–129.

# Appendix A

## TABLE SUMMARY

**Table 1 – Frequency and magnitude of lease liabilities recognised by Australian Listed Companies in 2024**

### Panel A Full Sample

	Observations	P25	Mean	Median	P75
% Lease Liabilities	622		83.76%		
Lease/ Total Debt	562	13.51%	50.13%	44.97%	96.66%
Lease/ Total Funding	622	1.06%	12.67%	5.16%	14.94%

### Panel B By Firm size

Size Category	Observations	Lease Recognition (%)	Lease/ Total Debt			Lease/ Total Funding		
			P25	Median	P75	P25	Median	P75
Micro	150	77.33%	11.70%	52.66%	100.00%	0.26%	3.56%	12.85%
Small	158	86.08%	19.58%	77.37%	100.00%	1.01%	4.91%	16.93%
Medium	158	84.81%	17.37%	46.73%	97.14%	1.25%	5.72%	14.77%
Large	156	86.54%	10.46%	24.07%	53.10%	2.14%	6.65%	15.55%

## Panel C By Sector

GICS Sector	Lease Recognition (%)	Lease/ Total Debt			Lease/ Total Funding		
		P25	Median	P75	P25	Median	P75
Mining	74.65%	3.80%	19.59%	89.78%	0.02%	0.77%	4.06%
Energy	59.18%	0.00%	11.52%	35.52%	0.00%	0.45%	2.35%
Materials	100.00%	14.75%	48.42%	73.94%	4.47%	8.50%	13.98%
Industrials	97.41%	15.43%	38.42%	84.89%	3.57%	8.54%	16.95%
Consumer Discretionary	97.78%	36.83%	73.60%	98.29%	5.88%	15.71%	39.31%
Consumer Staples	95.56%	14.59%	44.79%	72.62%	2.14%	8.57%	21.31%
Health Care	88.30%	19.31%	75.00%	100.00%	1.30%	3.63%	12.83%
Information Technology	93.75%	16.45%	48.51%	100.00%	1.93%	4.77%	10.70%
Communication Services	81.82%	12.48%	31.26%	84.36%	1.49%	5.98%	14.99%
Utilities	81.82%	0.96%	11.13%	62.10%	0.36%	3.03%	8.25%
Mining	74.65%	3.80%	19.59%	89.78%	0.02%	0.77%	4.06%

%Lease Recognition is the % of the total sample of firms that recognize lease liabilities

Total Debt is Borrowings plus Lease Liabilities

Total Funding is Shareholders Equity plus Total Debt

P25 and P75 are the observations at the 25th and 75th percentile of the distribution. They imply that 25% of the sampled firms lie below (above) the 25th (75th) percentile observation respectively.

The sample is all Australian listed companies in 2024 excluding companies in the mining, finance and real-estate sectors.

**Table 2 – Lease liability recognition across time**

Year	Lease Recognition (%)	Lease/ Total Debt	
		Mean	Median
2015	34.52%	8.86%	0.00%
2016	33.98%	11.33%	0.00%
2017	32.42%	10.87%	0.00%
2018	35.69%	13.73%	0.00%
2019	42.09%	18.01%	0.10%
2020	91.60%	51.49%	49.87%
2021	90.89%	53.37%	50.40%
2022	89.95%	51.26%	45.72%
2023	90.21%	52.54%	46.55%
2024	90.36%	50.26%	44.88%

% Lease Recognition is the % of the total sample of firms that recognize lease liabilities  
The sample is Australian listed companies that existed for the years from 2019 to 2024.

**Table 3 – Frequency of KAMS by subject matter for Australian companies in 2024**

KAM Subject Matter	Lease Recognition (%)	Median
Impairment	261	27.33%
Revenue	229	23.98%
Inventory	67	7.02%
Business Combinations	59	6.18%
Financial Instruments	48	5.03%
Intangibles	43	4.50%
Share Based Payment	38	3.98%
Going Concern	33	3.46%
Taxation	32	3.35%
Provisions	22	2.30%
PPE	19	1.99%
Leases	17	1.78%
Discontinued Operation	15	1.57%
Deferred Tax Asset	12	1.26%
Account Receivable	9	0.94%
Information Technology	8	0.84%
Equity Method	6	0.63%
Exploration Assets	6	0.63%
Biological Assets	5	0.52%
Contingent Liabilities	5	0.52%
Investment Property	5	0.52%
Expenses	4	0.42%
Related Party Transactions	4	0.42%
Cash	2	0.21%
R&D	2	0.21%
Grant	1	0.10%
Joint Venture	1	0.10%
Management Fee	1	0.10%
Trade Payables	1	0.10%
<b>Total</b>	<b>955</b>	<b>100.00%</b>



# Appendix B

## ILLUSTRATIVE AUDIT REPORT WHEN LEASES WERE DESIGNATED AS A KAM

### Independent Auditor's Report to the members of JB Hi-Fi Limited<sup>13</sup>

[...]

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[...]

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p><b>Lease accounting</b></p> <p><b>Refer to Note 16 of Right of use assets and lease liabilities</b></p> <p>The Group holds right of use assets of \$568.3 million and lease liabilities of \$642.4 million. These balances are significant in the context of the Group's balance sheet as at 30 June 2024.</p> <p>In applying AASB 16 Leases, the Group is required to make a number of judgments and estimates as disclosed in Note 16, including:</p> <ul style="list-style-type: none"> <li>Measuring the lease term (including judgements associated with lease renewal options and the accounting for leases in hold over).</li> <li>Determining an appropriate incremental borrowing rate to be applied in the measurement of right of use assets and lease liabilities upon initial recognition of a lease and for certain lease modifications.</li> </ul>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> <li>Understanding the Group's processes and key controls related to the accounting for leases.</li> <li>Testing on a sample basis, movements in the right of use assets and lease liabilities and recalculating the interest and depreciation recognised in profit or loss.</li> <li>Evaluating the judgements applied by management, including the probability of exercising renewal options.</li> <li>Assessing the incremental borrowing rates adopted by management, by preparing an independent expectation of the incremental borrowing rates.</li> <li>Evaluating the adequacy of the disclosures included in Note 16 to the financial statements.</li> </ul>

<sup>13</sup> As extracted in the independent auditor's report of JB HI-FI Annual Report 2024

# Appendix C

## EXTRACTS FROM THE “WHY SIGNIFICANT” SECTION OF AUDIT REPORTS, WHEN LEASES WERE DESIGNATED AS A KEY AUDIT MATTER

### XREALITY GROUP LIMITED

#### Right of use asset and lease liability

The group performed a reassessment of the calculations for the right-of-use asset and lease liabilities due to the flow on effect of higher sustained inflation and the impact on future rent increases. The right-of-use assets and lease liability calculations involves a degree of complexity and judgement around potential rent increases based on inflation. We considered in the persistent inflationary environment reviewing the right-of-use asset and lease calculations are a key audit matter due to the significant uncertainty around the current period of economic volatility. The value of the right-of use assets also forms part of our impairment assessment described above

### JB HI-FI LIMITED

#### Lease accounting

The Group holds right of use assets of \$568.3 million and lease liabilities of \$642.4 million. These balances are significant in the context of the Group’s balance sheet as at 30 June 2024. In applying AASB 16 Leases, the Group is required to make a number of judgments and estimates as disclosed in Note 16, including:

Measuring the lease term (including judgements associated with lease renewal options and the accounting for leases in hold over).

Determining an appropriate incremental borrowing rate to be applied in the measurement of right of use assets and lease liabilities upon initial recognition of a lease and for certain lease modifications.

### SILK LOGISTICS HOLDINGS LIMITED

#### Assessment of Lease term and incremental borrowing rate under AASB 16 Leases

As at 30 June 2024 the Group has reported right of use assets of \$283.7 million (\$142.8 million at 25 June 2023) relating to property related leases. The estimated lease term of these properties and the incremental borrowing rate forms part of the assessment for determining the right of use asset and associated lease liability at the time of initial recognition. The accounting policy and the significant estimates and judgements in relation to determining the lease term are disclosed in Notes 2 and 3. In reassessing the lease term, the Group is required to determine whether there are significant events under their control which result in renewal options being required to be incorporated into the assessment. Where lease terms have been reassessed, the Group is required to determine an appropriate incremental borrowing rate to be applied in the calculation of right of use assets and lease liabilities.

## GUZMAN Y GOMEZ LIMITED

### Lease

The Group has a significant lease portfolio which includes leases for restaurant sites as well as office and other leases. As set out in Notes 15, 17 & 21 to the financial statements, at 30 June 2024 the Group has recognised lease liabilities of \$239.5m, finance lease receivables of \$126.4m and right-of-use assets of \$93.8m. There were additions of \$65.5m to lease liabilities, \$24.3m to finance lease receivables and \$36.9m to right-of-use assets during the year. Included in the lease portfolio are leases which are entered into for franchise restaurants with the Group as the head lessee, and sub-leases entered into with the franchisees under the same terms as the head lease. Where the sub-lease transfers substantially all of the risks and rewards of the underlying right-of-use asset, the sub-lease is classified as a finance lease and is recognised as a finance lease receivable. Alternatively, other sub-leases are classified as operating leases and recognised as right-of-use assets. For lease additions and modifications during the year, the Group applied significant judgement in determining the incremental borrowing rate {IBR}, including the calculation method, appropriate data utilised, and the determination of the lease term with extension options.

## PREMIER INVESTMENTS LIMITED

### Accounting for leases

The Group holds a significant volume of leases by number and value over retail sites as a lessee. The recognition and measurement of new and remeasured lease agreements executed during the year in accordance with AASB 16 Leases ("AASB 16") are dependent on a number of key judgements and estimates. These include:

The calculation of incremental borrowing rates;

The treatment of the option to extend the lease term under holdover; and

The impact of backdated rent variations.

Accordingly, given the significant judgements and estimates involved we considered this a key audit matter.

## VIVA LEISURE LIMITED

### Right Of Use Assets and Lease Liabilities

At 30 June 2024, the group recognized \$255,307,160 in Right of Use Asset and \$290,225,494 in lease liabilities. The group has numerous lease arrangements in place which requires certain judgments to be made at point of recognition and measurement. We focused on this area as a key audit matter given the significance of the balance and there is risk that the leases may not be accounted for in accordance with the requirements of AASB 16 Leases.

## CARLY HOLDINGS LIMITED

### Lease accounting

As at 30 June 2023, the Group has recognised a current lease liability of \$346,770 and a non-current lease liability of \$640,550 in relation to an office lease and vehicle leases. We determined lease accounting to be a key audit matter as it is material, important to the users' understanding of the financial statements and involved the most audit effort and communication with management.

## RETAIL FOOD GROUP LIMITED

### Lease accounting - estimate of lease arrears and assessment of recoverability of lease receivables (\$61.7m)

The Group has a significant lease portfolio that includes sub-lease arrangements with franchisees where the Group has entered into the head lease agreement with the landlord. Where the franchise store sub-lease is assessed by the Group as a finance lease using AASB 16 Leases, the Group recognise a finance lease receivable. Following this, the impairment requirements of AASB 9 Financial Instruments apply to the net investment in these leases. The Group determined their expected loss provisioning amounts using a forward-looking expected credit loss impairment model. This involves significant judgement as the expected credit loss reflects information about past, current and future conditions. Overall, the relative size of balances has a significant financial impact on the Group's financial position and performance. We involved our senior audit team members in assessing this key audit matter

## CHRYSOS CORPORATION LIMITED

### PhotonAssay operating lease income

PhotonAssay operating lease income was a key audit matter due to:

The quantum of operating lease income earned during the year, which comprised 92% of total revenue and other income.

The judgement required in applying revenue recognition and lease accounting standards to the PhotonAssay leases.

To classify each lease the Group applies judgement to assess whether the agreements transfer substantially all the risks and rewards of ownership of the underlying PhotonAssay assets. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. Significant judgement is required to determine the lease term. Consideration is given to the non-cancellable periods and early cancellation penalties contained in the leasing arrangements. In assessing this key audit matter, we involved senior audit team members who understand the Group's business and industry.

## INGHAMS GROUP LIMITED

Accounting for AASB 16 Leases – (right of use assets and lease liabilities amounting to \$1,031.7 million and \$1,138.4 million respectively)

AASB 16 Leases (“AASB 16”) is complex with specific lease-features driving different accounting outcomes, increasing the need for interpretation and judgement. AASB 16 Leases is a key audit matter due to the:

Relative materiality of the right of use assets and lease liabilities to the financial report.

Number of leases in the Group, including the individual nature of the lease agreements used to estimate the lease liability and right-of-use asset.

A focus for us was the accuracy of multiple and varied inputs which may drive different accounting outcomes, including key dates, fixed and variable rent payments, renewal options and incentives. The key areas of judgement we focussed on was in assessing the Group’s:

Renewal options contained within leases. Assessing the Group’s determination of whether it is reasonably certain renewal options will be exercised impacts the measurement of the lease, therefore is critical to the accuracy of the accounting.

Grower contractual arrangements and the features of the underlying grower contracts against the definition of a lease under the accounting standards.

Incremental borrowing rates determined by the Group. These are meant to reflect the Group’s entity specific credit risk and vary based on each lease term. We involved our senior audit team members in assessing these areas

## SONIC HEALTHCARE LIMITED

### Lease accounting

Lease accounting was a key audit matter due to the:

financial significance of lease liabilities and right-of-use assets to the consolidated balance sheet; and

significant judgements required by the Group such as determining the lease term and the incremental borrowing rate

## UNIVERSAL STORE HOLDINGS LIMITED

### Accounting for leases

Accounting for leases was a key audit matter due to the size of right-of-use assets and lease liability balances included in the financial report and the judgement involved in determining the balances, including the incremental borrowing rate used for discounting, accounting for leases in holdover and treatment of lease incentives and modifications.

## BAPCOR LIMITED

### Accounting for leases

At 30 June 2024, the Group recorded right of use assets of \$249.9 million and a lease liability of \$288.6 million. Accounting for leases was a key audit matter due to the financial significance of right-of-use assets and lease liability balances and the judgement involved in determining these balances, including the incremental borrowing rate and option renewals.

## BIOXYNE LIMITED

### Accounting for leases

The Group has significant lease arrangements. AASB 16 Leases, has introduced new complexities in lease accounting, requiring significant management judgment and estimation. This includes determining the lease term, discount rates, and the classification of leases as either operating or finance leases. Given the material impact on the financial statements and the complexity involved, accounting for leases was identified as a key audit matter

## ALTERRA LIMITED

### Leases

The Group has continued to recognise right-of-use assets and lease liabilities in relation to its lease arrangements over office premises and Carpenters plantation site. The majority of the right-of-use asset and lease liability recorded relates to the long-term Carpenters lease. Accounting for leases is a key audit matter as the balances recorded are material and there are significant judgements involved in determining the appropriate lease payments necessary to be used in the calculation of the lease liability and right-of-use asset

## OOH MEDIA LIMITED

### Lease Accounting

The accounting requirements of MSB 16 Leases are inherently complex, where specific and individualised lease-features drive different accounting outcomes, increasing the need for interpretation and judgement. This increases our audit effort and is a key audit matter. We focused on:

High volume of leases - the Group has a high volume of individualised lease agreements required to be assessed in determining the lease liability and right-of-use asset. A focus for us was the completeness of the lease population and the accuracy of multiple and varied inputs which may drive different accounting outcomes, including key terms of the lease agreements, such as key dates, fixed rent payments, renewal options and incentives.

Complex modelling process - the Group developed a lease calculation model, which is largely manual and complex, and therefore is at greater risk for potential error and inconsistent application.

Relative magnitude - the size of balances has a significant financial impact on the Group's financial position and performance.

The most significant areas of judgement we focused on were in assessing the Group's:

Incremental borrowing rates used - these reflect the Group's entity specific credit risk and vary based on each lease term. The Group periodically engages an external expert to assist with determining each of the Group's incremental borrowing rates.

Lease terms where leases have renewal options - assessing the Group's judgement of whether it is reasonably certain renewal options will be exercised impacts the measurement of the lease, therefore is important to the accuracy of the accounting. We involved our senior audit team members in assessing these areas

## **COLLINS FOODS LIMITED**

### **Accounting for Leases**

The Group applies Australian Accounting Standard AASB 16 Leases in accounting for the Group's portfolio of restaurant leases. As a result, Right-of-use assets and Lease liabilities are recognised in the balance sheet. We considered this a key audit matter given the financial significance of the related balances in the Group's balance sheet and the critical judgements used in determining the lease term assumptions in the lease calculations, as well as the significant amount of audit effort in auditing the balances.

# Appendix D

## SAMPLE CONSTRUCTION FOR DESCRIPTIVE STATISTICS IN REGARD TO FREQUENCY AND MAGNITUDE OF LEASE LIABILITES

The starting population is all Australian listed entities over the period from 2016 to 2024. We removed entities missing data on total assets, total revenue, shareholders' equity, net statutory income, or a GICS sector. We also removed entities in the GICS Sectors: financials (GICS #40), real estate (GICS #60) and mining (GICS Industry 151040). Finally, we removed entities with totals assets less than \$5 million.

The finance and real estate sectors were removed both because of their fundamental different business models to the typical firm (e.g. REITS and exchange traded funds) and the nature of the accounting is different. The mining sector was removed because of the predominance of Metals and Mining entities in the Australian economy

The size cutoffs in total assets are as follows. Micro (< \$m23); Small (>\$m23 and < \$m101); Medium (>\$101m and < \$593m) and Large (> \$m593).



# Appendix E

## METHODOLOGY FOR CLASSIFICATION OF KEY AUDIT MATTER SUBJECT MATTER

We classified the KAMs into subject matters based on the following three broad decision rules:

- First, if the subject matter was not an impairment and related to a specific primary financial statement account (e.g., revenue, receivables, inventory, provisions, leases) then that account was the category.
- Second, we had categories for any subject matter that related to impairments, and business combinations. The impairment category includes impairments regarding all assets.
- Finally, we had a range of subject matters that were relevant to the audit that may not directly affect a specific financial statement account (e.g., information technology, due to implementation of enterprise resource systems).

## Attachment C: CPA Australia's Response to IFRS16 PIR (Draft)

### Question 1(a)

**In your view, is IFRS 16 meeting its objective (see page 9) and are its core principles clear? If not, please explain why not**

Yes, in relation to Australian listed entities, CPA Australia is of the view that IFRS 16 meets its objectives, and its core principles are clear. Feedback received from the outreach and research activities we have undertaken supports our view. As you will be aware, IFRS Accounting Standards form the basis for financial reporting by all sectors in Australia. Whilst feedback from our commissioned research and outreach has indicated that the objective of IFRS 16 is being met for financial reporting by Australian listed entities, significant concerns have been raised about its suitability for other sectors including the Australian not-for-profit private and public sectors. Given the focus of the IASB is standard-setting for the global capital markets, we have restricted our views in this submission to that segment.

As noted in our cover letter, our above views are underpinned by ongoing commissioned research in collaboration with the University of Melbourne. Research report 1 (**Attachment B**) provides insights into some aspects of the impacts of IFRS 16 on Australian listed entities. We have also gathered additional feedback through our outreach activities as noted in our cover letter.

The standard has also achieved its intended objective of enhancing the usefulness of information for users. However, perceptions of usefulness remain diverse across different stakeholder groups, while some embrace the standard in terms of recognising lease commitments on balance sheets, some stakeholders such as banks and financial analysts seeing it as irrelevant and perform reversing adjustments for their specific decision-making purposes. Further consideration could be given to whether the accounting requirements more closely align with information needs of diverse user groups.

### Question 1(b)

**In your view, are the overall improvements to the quality and comparability of financial information about leases largely as the IASB expected? If your view is that the overall improvements are significantly lower than expected, please explain why.**

Overall, the evidence indicates that IFRS 16 has delivered on its objective of bringing many leases onto the balance sheet and improving quality and comparability. However, concerns remain regarding operational comparability in complex situations and the practical relevance of reported information for key users. We recommend that these issues be considered and addressed following the PIR to further enhance the usefulness of the standard.

CPA Australia commissioned research (**Attachment B**) indicates that IFRS 16 has largely achieved the IASB's objective of improving the quality and comparability of lease information.

#### **Evidence from research:**

Analysis of Australian firms from 2019-2024 (**Attachment B**) shows that the principle of lease capitalisation is both widely understood and consistently applied. Adoption rates rose sharply at transition, with 92% of firms recognising lease liabilities in 2020 compared with 42% in 2019. By 2024, 84% of firms continued to recognise lease liabilities across all sizes and industries. Lease liabilities are also economically significant, with the median firm reporting leases equal to 45% of total debt. Recognition levels have remained stable since adoption, suggesting that compliance costs have not deterred ongoing application. Taken together, these findings indicate that IFRS 16 has materially changed reporting practices, enhanced transparency, and strengthened comparability across firms and industries.

## Concerns raised in feedback:

While the overall improvements are evident, in our outreach activities, stakeholders identified areas where challenges remain:

- **Comparability challenges:** Many lease accounting systems cannot fully address complexities such as lease modifications, variable payments, subleases, and sale-and-leasebacks. This often results in manual adjustments outside the system, increasing inconsistencies. Differences in system design (lease contract asset management vs. lease accounting) also lead to divergent outcomes, reducing comparability across the market.
- **Relevance for key stakeholders:** Some Australian banks routinely exclude IFRS 16 adjustments when monitoring debt covenant compliance, preferring to focus on future lease commitments. Similarly, many organisations reverse IFRS 16 adjustments in external market communications – for example, reporting EBITDA and cash flows on a pre-IFRS 16 basis for consistency with peers, competitors, and US-GAAP practice. This suggests that while the standard has improved statutory comparability, its decision-usefulness for key stakeholders is reduced in practice, as both preparers and users treat leases as ordinary operating costs rather than financing.

### Question 1(c)

**In your view, are the overall ongoing costs of applying the requirements and auditing and enforcing their application largely as the IASB expected? If your view is that the overall ongoing costs are significantly higher than expected, please explain why, how you would propose the IASB reduce these costs and how your proposals would affect the benefits of IFRS 16.**

In the context of Australian listed entities, CPA Australia commissioned research (**Attachment B**) indicates that the auditing of lease-related requirements under IFRS 16 is not generally associated with unexpectedly high costs. As noted in the sample-based analysis in Research Report 1 of Key Audit Matters (KAM) (refer also to our response to Question 1(a)), leases were identified as a KAM in only 4% of audit reports across Australian listed companies. This suggests that lease accounting is not typically regarded as a significant source of audit complexity or cost. Where lease-related KAMs did arise, they were concentrated in consumer sectors with high exposure to retail premises and primarily related to economic significance or the exercise of professional judgment around matters such as discount rates. Importantly, the review did not reveal unforeseen areas of estimation uncertainty or judgement. These findings support the view that the auditing of financial information arising from IFRS 16 results in satisfactory outcomes overall and the standard is operating as intended and without undue burden.

Whilst the overall feedback has been positive, some concerns and areas for improvement have also been identified, particularly for smaller listed entities. The main concerns raised can be summarised as follows:

- **Contradictions in requirements:** Stakeholders noted that the standard demands highly precise calculations in some areas (e.g., discount rates) while allowing broad judgment in others (e.g., portfolio application). This inconsistency increases ongoing cost without necessarily improving the usefulness of the information.
- **Limited relevance to some users:** Feedback suggested that measurement outputs are often ignored or excluded by banks and internal management, who prefer to focus on future lease commitments or cash flows. Many of the responses we received focused on property leases, questioning whether the complexity and cost of maintaining compliance is justified by the decision-usefulness of the information, particularly for common office leases or multiple small landlord arrangements.
- **Higher relative cost on smaller listed entities:** Larger organisations are generally able to absorb IFRS 16 requirements with access to better systems and resources, while smaller entities face disproportionately high costs. Lease calculations relating to remeasurement are not as reliable with less sophisticated software solutions, forcing more manual intervention, and compliance costs represent a significant proportion of resources relative to firm size.
- **Complexity versus substance:** Some stakeholders have expressed a view that IFRS 16 transforms what are, in practice, straightforward rent payments into a complex series of accounting entries (right-of-use assets, liabilities, interest expenses, and amortisation costs). They view this as detached from the commercial

substance of leases, particularly for smaller entities. Moreover, as noted above, banks and internal management often reverse or ignore the adjustments, focusing instead on cash flows. This raises some concern that the ongoing costs of complying with IFRS 16 are higher than anticipated, with some estimating compliance with IFRS 16 drives around 20% of audit fees.

- **Lack of a clear benchmark for costs:** Stakeholders noted that while most preparers agree compliance costs are higher than anticipated, it is difficult to assess whether these costs are truly “excessive” in the absence of a clear benchmark of what ongoing costs were expected to be. This lack of a reference point makes evaluation inconsistent and subjective.

In summary, our commissioned research suggests that from an audit perspective, IFRS 16 has not created greater-than-expected burdens. Nonetheless, stakeholder feedback through our outreach activities highlights genuine concerns about the uneven distribution of costs across different company sizes, the perceived disconnect between accounting complexity and economic reality, and the absence of clear cost benchmarks. We recommend that the IASB consider these issues in the PIR, particularly by:

- evaluating whether additional simplifications or reliefs are warranted for listed SMEs
- assessing whether the accounting requirements could be better aligned with the economic substance of leases in practice
- clarifying expectations about the appropriate level of costs to support consistent evaluation in future reviews.

### Question 2(a)

**Do you agree that the usefulness of financial information resulting from lessees’ application of judgement is largely as the IASB expected? If your view is that lessees’ application of judgement has a significant negative effect on the usefulness of financial information, please explain why.**

We agree that, overall, the usefulness of financial information resulting from lessees' application of judgement is largely as the IASB expected. The exercise of judgement that results in IFRS 16-based lease accounting information has increased transparency and provided users with a clearer view of financial obligations relating to leases. Our commissioned research also indicates that recognition levels have remained high and stable, suggesting that preparers are exercising judgement consistently, resulting in information that is relevant and faithfully representative.

However, feedback received highlights that perceptions of usefulness vary considerably between different user groups:

- **Divergent stakeholder perspectives:** Some preparers and auditors view the information as burdensome or less relevant to decision-making, whereas others—such as credit rating agencies—value it highly, as it aligns with their long-standing practice of capitalising lease commitments. This suggests that usefulness depends on the stakeholder’s perspective and objectives.
- **Banks and internal management:** As noted in our response to Question 1(b), some banks and internal management teams routinely exclude IFRS 16 information, focusing instead on cash flows and future lease commitments. This practice indicates that for certain key users, the usefulness of IFRS 16 arising from information may not be as high as expected.
- **Analysts and transaction-focused users:** Feedback also indicated that analysts often find the information more difficult to reconcile for comparability and valuation purposes, particularly in merger and acquisition scenarios. This adds complexity to their work and may reduce the perceived usefulness of the information.

### Question 2(b)

**Do you agree that the requirements in IFRS 16 provide a clear and sufficient basis for entities to make appropriate judgements and that the requirements can be applied consistently? If not, please explain why not.**

We agree that, in general, IFRS 16 provides a clear and sufficient basis for entities to exercise appropriate judgement and apply the requirements consistently. Our commissioned research indicates that the principle of lease capitalisation is widely understood and consistently applied across firms, suggesting that the core framework is sound and workable in practice.

Some stakeholder feedback received however highlights that challenges remain in more complex areas of application as set out below:

- **Determination of lease term:** To assist with lease-term determination, stakeholders noted that the relevant IFRIC agenda decision has been relied upon to resolve ambiguities, such as how to define lease term when contracts lack explicit extensions. However, these clarifications are not always easily accessible, being included as separate literature on the IASB website.

In practice, this has resulted in inconsistent application across entities. For example, there is diversity in the application of lease-term thresholds when assessing whether lease extensions are “reasonably certain.” These differences can materially affect reported lease liabilities and ratios such as return on assets, undermining comparability.

We also understand diversity exists in how retailers assess “reasonably certain” extension options, particularly for long retail leases. Different interpretations can materially affect reported assets, liabilities, and performance ratios, suggesting a need for clearer guidance.

In short, while IFRS 16 provides a framework for determining lease term, its application remains highly judgemental and resource-intensive. Concerns remain in terms of inconsistent outcomes and limited comparability in practice, particularly for smaller entities. Feedback strongly supports the need for clearer, more integrated guidance and practical examples, particularly for land and building leases, to reduce complexity and ensure the requirements deliver meaningful and useful information.

- **Fragmentation of Guidance and Role of Agenda Decisions:** We note that IFRIC has already issued six separate agenda decisions relating to IFRS 16 since its introduction:
  - i. Lease Term and Useful Life of Leasehold Improvements (Nov 2019)
  - ii. Definition of a Lease (Dec 2019)
  - iii. Sale and Leaseback with Variable Payments (Jun 2020)
  - iv. Non-refundable VAT on Lease Payments (Apr 2021)
  - v. Lessor Forgiveness of Lease Payments (Oct 2022)
  - vi. Definition of a Lease—Substitution Rights (Apr 2023)

The volume and breadth of these decisions indicate that preparers and auditors frequently encounter interpretative challenges in applying the standard. Relying on agenda decisions as the primary mechanism for clarification risks fragmenting the guidance, creating accessibility issues, and leading to inconsistent application. We therefore recommend that the IASB considers formally incorporating the substance of these agenda decisions into IFRS 16, either as practical expedients or integrated guidance, to improve clarity, consistency, and accessibility.

- **Lease modifications:** Preparers often confuse modifications with remeasurements, particularly for CPI-driven rent resets or umbrella agreements covering multiple assets. For example, some preparers incorrectly apply modification provisions and update discount rates when variable lease payments change, even though these should be treated as remeasurements. This lack of understanding adds unnecessary cost and inconsistency, highlighting the need for clearer guidance and practical examples.

From an auditing perspective, modification versus remeasurement is also a recurring source of difficulty. This often leads to disagreements between preparers and auditors, giving rise to time and cost pressures. Regulatory issues in the Australian environment further compound the problem. Local legal practice often involves extending leases by amending the original contract rather than creating a new one, with resets every few years. This structure does not align neatly with the accounting requirements of IFRS 16, creating ambiguity in

distinguishing between new leases and modifications. Such mismatches increase compliance costs and uncertainty, particularly for mid-sized entities.

In short, stakeholders viewed the current lease modification requirements as complex and judgement-heavy, creating recurring compliance costs. They emphasised the need for simplification and clearer practical guidance to reduce burden while maintaining transparency.

- **Lease incentives:** We previously raised this matter in our 2019 **submission** to the IASB, highlighting concerns around the accounting for lease incentives under IFRS 16, particularly in relation to:
  1. whether lease incentives should be excluded from both the right-of-use asset and lease liability, or whether a separate lease incentive liability should be recognised (Issue 1 in our submission), and
  2. whether reimbursements for leasehold improvements should fall within the scope of the definition of lease incentives (Issue 2 in our submission).

These uncertainties created the potential for inconsistent practices and undermined comparability, as evidenced by divergent interpretations amongst preparers and auditors. In response, the IASB's 2020 Annual Improvements amended Illustrative Example 13 by deleting the reference to leasehold improvements, primarily to avoid confusion. While this action removed a source of inconsistency in the example, it did not substantively address the underlying interpretative questions raised by stakeholders. Accordingly, the treatment of lease incentives continues to lack clarity, and diversity in practice may persist, warranting further consideration as part of the post-implementation review.

- **Low value leases:** Stakeholders noted that materiality remains an unresolved issue, with current exemption thresholds (USD\$5,000 noted in the Basis for Conclusions for low value assets) set too low to be meaningful. In practice, these thresholds often capture only minor items such as personal computers, while most lease value is concentrated in a small number of significant contracts (e.g. 20 leases covering around 90% of value of all leases held by the entity). As a result, entities still need to apply lease accounting to numerous low-value items, creating unnecessary burden. Stakeholders suggested clearer principles that explicitly allow immaterial leases to be disregarded while ensuring materially significant assets are recognised.
- **Variable lease payments:** Current requirements prohibit the estimation of variable lease payments linked to consumer price index (CPI) or market rent reviews unless a floor exists. This can exclude substantial obligations from lease liabilities, reducing consistency and making like-for-like comparisons difficult.

Overall, we believe IFRS 16 sets out a sufficiently clear and consistent framework for judgement. However, complex areas, particularly around areas noted above, would benefit from more integrated and transparent guidance incorporated directly within the standard. This would help reduce reliance on a number of Agenda Decisions and promote more consistent application across all entities, including smaller and resource-constrained entities.

#### Question 2(c)

**If your view is that the IASB should improve the usefulness of financial information resulting from lessees' application of judgement, please explain: (i) what amendments you propose the IASB make to the requirements (and how the benefits of the solution would outweigh the costs); or (ii) what additional information about lessees' application of judgement you propose the IASB require entities to disclose (and how the benefits would outweigh the costs)**

See our response to Question 2(b) above.

**Question 3**

**Do you agree that the improvements to the quality and comparability of financial information about lease-related cash flows that lessees present and disclose are largely as the IASB expected? If your view is that the improvements are significantly lower than expected, please explain why.**

We acknowledge that overall, IFRS 16 has improved the quality and comparability of lease-related cash flows by requiring greater disclosure.

However, some stakeholders have raised concerns that some of the cash flow-related characteristics of certain leases. In particular, we understand there is inconsistency in how lease payments are classified in the cash flow statement, and the separation of cash flows into operating and financing categories results in useful information for decision-making purposes.

Some stakeholders have also observed that there is no clear distinction of cash flows now between assets that are essentially purchased through debt-financing (finance leases under IAS 17) and assets that are 'rented' for operational requirements (operating leases under IAS 17). From a user perspective, this treatment overcomplicates what is essentially a straightforward cost of doing business.

The IASB may wish to consider developing requirements that provide further clarity around cash flows relating to leases in its project on Cash Flows and Related Matters.

**Question 4(a)**

**Do you agree that the ongoing costs of applying the measurement requirements in IFRS 16 are largely as the IASB expected? If your view is that the ongoing costs are significantly higher than expected, please explain why, considering how any entity-specific facts and circumstances (such as IT solutions) add to these costs.**

See our response to Question 1(c) above.

**Question 4(b)**

**If your view is that the ongoing costs are significantly higher than expected, please explain how you propose the IASB reduce these costs without a significant negative effect on the usefulness of financial information about leases.**

See our response to Question 1(c) above.

**Question 5**

**Based on your experience with the transition to IFRS 16, would you recommend the IASB does anything differently when developing transition requirements in future standard-setting projects? If so, please explain how your idea would ensure: (a) users have enough information to allow them to understand the effect of any new requirements on entities' financial performance, financial position and cash flows; and (b) preparers can appropriately reduce their transition costs when implementing new requirements for the first time.**

Overall, feedback we have received indicates that the transition approach adopted for IFRS 16 worked well and provided an effective and appropriate balance between providing useful information for users and cost relief for preparers.

- **Transition choices:** The availability of both full retrospective and modified retrospective approaches was also seen as a positive. This allowed flexibility for entities, with most opting for the modified retrospective method, while those seeking greater comparability were still able to apply full retrospective transition.
- **Contextual challenges:** Some stakeholders noted that the onset of COVID-19 coincided with adoption, which diverted resources and meant there were competing and sometimes more important priorities for preparers, which may have led to some treating initial application of the standard as a compliance exercise. The real challenges only emerged later once entities had more capacity to engage with the requirements. It is therefore difficult to isolate whether any transition issues were due to the design of the transition provisions or the unusual circumstances of implementation.
- **Grandfathered contracts:** Additional feedback suggested that issues have since emerged where grandfathered contracts unexpectedly trigger reapplication of IFRS 16 due to subsequent modifications or renegotiations. Even minor changes in long-term contracts can cause material balance sheet impacts, adding significant judgement and complexity when historical data was not captured at transition. Stakeholders recommended that grandfathered contracts remain exempt from reapplication, or that immaterial modifications should not trigger full reassessment, to avoid disproportionate costs.

At this stage, we have not identified any additional suggestions other than the observations above, to assist the IASB in establishing transition provisions for future standards.

**Question 6.1(a)**

**How often have you observed the type of rent concession described in Spotlight 6.1?**

**Question 6.1(b)**

**Have you observed diversity in how lessees account for rent concessions that has had, or that you expect to have, a material effect on the amounts reported, thereby reducing the usefulness of information?**

**Question 6.1(c)**

**If your view is that the IASB should act to improve the clarity of the requirements, please describe your proposed solution and explain how the benefits of the solution would outweigh the costs.**

No further comments.

**Question 6.2(a)**

**How often have you observed difficulties in assessing whether the transfer of an asset in a sale and leaseback transaction is a sale?**

**Question 6.2(b)**

**Have you observed diversity in seller-lessees' assessments of the transfer of control that has had, or that you expect to have, a material effect on the amounts reported, thereby reducing the usefulness of information?**

**Question 6.2(c)**



**If your view is that the IASB should act to help seller-lessees determine whether the transfer of an asset is a sale, please describe your proposed solution and explain how the benefits of the solution would outweigh the costs.**

We have received limited feedback that indicates that sale-and-leaseback transactions are one of the more complex and judgement-heavy areas of IFRS 16, with difficulties in assessing whether transfers qualify as true sales, with diversity in practice leading to inconsistent recognition of gains, losses, and lease liabilities. These inconsistencies, arising in hybrid or partial asset transfers, undermine comparability and reduce the usefulness of reported information. Stakeholders recommended clearer, dedicated guidance within IFRS 16 itself, including criteria for assessing sales, treatment of subsequent modifications, and illustrative examples to improve consistency.

Some of the specific concerns raised include:

- **Whether transfer constitutes a sale:** Stakeholders observed they encountered difficulties frequently in assessing whether a transfer constitutes a true sale, noting IFRS 16 provides limited guidance on this point, leaving them reliant on the 'transfer of control' framework enshrined in IFRS 15. This has created uncertainty, particularly in hybrid or complex transactions (for example, where only part of a building or infrastructure asset is transferred).
- **Diversity in practice and impact:** Some entities conclude transactions are sales, while others treat them as failed sales (transactions that do not qualified as a 'sale' under IFRS 15), leading to inconsistent recognition of gains/losses and ROU assets/lease liabilities. Inconsistent approaches also arise from reassessments where "unit of account" questions are handled differently (e.g., entire asset vs. physically distinct components). This divergence undermines comparability and reduces the usefulness of reported information.

Stakeholders have recommended that the IASB develop clearer, dedicated guidance for sale-and-leaseback accounting, rather than relying on references to IFRS 15 and IFRS 9. Key areas for improvement include:

- Clarifying the criteria for assessing whether a transfer is a true sale or a failed sale, possibly by embedding principles similar to those used in IFRS 3 for valuing asset acquisitions as part of business combinations, which separate different transaction components.
- Providing guidance on how to treat subsequent events or modifications – i.e., whether and when reassessment or modification is required.
- Addressing conceptual inconsistencies between IFRS 15, IFRS 9 and IFRS 16, so preparers are not left unclear on which path to follow for specific fact patterns.
- Developing and providing further illustrative examples, including for partial asset transfers and hybrid arrangements (e.g., one floor of a building), to improve comparability in practice.

#### **Question 6.3(a)**

**Do you agree that restricting the amount of gain (or loss) an entity recognises in a sale and leaseback transaction results in useful information?**

#### **Question 6.3(b)**

**What new evidence or arguments have you identified since the IASB issued IFRS 16 that would indicate that the costs of applying the partial gain or loss recognition requirements, and the usefulness of the resulting information, differ significantly from those expected?**

#### **Question 6.3(c)**

**If your view is that the IASB should improve the cost-benefit balance of applying the partial gain or loss recognition requirements, please describe your proposed solution.**

We have no further comments other than those provided in our response to Question 6.2 above.

**Question 6.4**

**Are there any further matters the IASB should examine as part of the post-implementation review of IFRS 16? If so, please explain why, considering the objective of a post-implementation review as set out on page 5**

Based on feedback and observations, we suggest the IASB examine the following matters as part of the PIR of IFRS 16. These are some of the areas identified by our stakeholders as more challenging to apply as part of the IFRS 16 requirements:

- **Use of lease liabilities in performance metrics:** As noted in our commissioned research (Attachment B), among Australia's largest lease-intensive firms, most include lease liabilities in Return on Invested Capital (ROIC) calculations. However, a notable minority exclude them, which may lead to inconsistent or potentially misleading performance measures. Whilst we appreciate this would be considered 'non-IFRS' information, the inconsistent approaches taken to presenting IFRS 16-based information as part of financial ratios could have an impact on information presented as management performance measures under IFRS 18.
- **Interest rate implicit in the lease vs incremental borrowing rate (IBR):** Our research indicates that auditing the Standard is not generally associated with high costs (see our response to Question 1(c)). Leases were identified as a Key Audit Matter (KAM) in only 4% of audit reports for Australian listed companies, concentrated mainly in retail sectors where lease exposures are significant. This suggests that, overall, the auditing of IFRS 16 is functioning as intended and does not impose an undue burden. The primary area where challenges arise is in the determination of discount rates (particularly IBR) which requires significant judgement and is often the focus of audit attention.

Beyond our research findings, stakeholders consistently noted that determining the IBR represents one of the more judgement-intensive aspects of applying the Standard, given that the implicit rate is rarely observable for property leases. Entities therefore default to using the IBR, which requires assumptions about credit risk, lease terms, and financing conditions. While workable, this approach creates variation across entities, as methodologies and inputs differ. Stakeholders also noted that although a portfolio-based approach to discount rates (e.g., using standardised rates for 3-, 7- or 15-year leases) could improve consistency, most systems are not equipped to support this, forcing companies into manual workarounds and increasing inconsistency in practice.

In short, while the Standard has not created widespread auditing challenges, the area of discount rate determination, particularly reliance on the IBR in the absence of practical implicit rates, remains one of the more complex and judgement-heavy aspect of assurance under the standard.

## Memorandum

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**To:** NZASB Members

**Meeting date:** 9 October 2025

**Subject:** **Amendments to XRB A1 *Application of the Accounting Standards Framework***

**Date:** 25 September 2025

**Prepared by:** Alex Stainer

**Through:** Nimash Bhikha, Michelle Lombaard

 **Action Required**
 **For Information Purposes Only**

### COVER SHEET

#### Project priority and complexity

<b>Project purpose</b>	To update XRB A1 <i>Application of the Accounting Standards Framework</i> to: <ul style="list-style-type: none"> <li>• Amend the definition of public accountability for the latest IASB updates, and to address application challenges;</li> <li>• Increase the ‘large’ threshold for for-profit public-sector entities</li> <li>• Improve clarity of the Tier 4 criteria and ‘moving between tiers’ provisions for PBEs</li> </ul>
<b>Cost/benefit considerations</b>	Amendments to the definition of public accountability and the ‘moving between tiers’ provisions for PBEs will make these easier to apply in practice, which will result in benefits and reduces compliance costs.  Revisiting the tier size threshold for for-profit public sector entities also allows for a better balance of reporting costs and benefits for these impacted entities.
<b>Project priority</b>	<b>Low priority</b>  These amendments are expected to better balance costs and benefits of reporting, and the issues being addressed are not pervasive or significant.

## Overview of agenda item

<b>Project Status</b>	
<b>Board action required</b>	<p><b>Low complexity</b></p> <ul style="list-style-type: none"> <li>• <b>AGREE TO RECOMMEND</b> to the XRB Board to issue the domestic amending standard <i>2025 Amendments to XRB A1 Application of the Accounting Standards Framework</i></li> <li>• <b>APPROVE</b> the revised <i>EG A1: Guide to Application of the Accounting Standards Framework</i></li> <li>• <b>AGREE</b> to remove staff guidance – <i>Definition of Public Accountability</i></li> </ul>

### Purpose and introduction<sup>1</sup>

1. This memo seeks the Board’s recommendation to proceed with issuing a standard that amends *XRB A1 Application of the Accounting Standards Framework*, following the recent closure of the consultation on the Exposure Draft *2025 Amendments to XRB A1 Application of the Accounting Standards Framework* on 29 August 2025.

### Recommendations

2. We recommend the Board:
  - (a) **AGREE TO RECOMMEND** to the XRB Board to issue the amending standard *2025 Amendments to XRB A1 Application of the Accounting Standards Framework*;
  - (b) **APPROVE** the revised *EG A1: Guide to Application of the Accounting Standards Framework*; and
  - (c) **AGREE** to remove staff guidance – *Definition of Public Accountability*.

### Structure of this memo

3. The remaining sections in this memo are:
  - (a) [Background](#)
  - (b) [Additional amendments](#)

<sup>1</sup> This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Accounting Standards, IFRIC® Interpretations and IASB® papers).

- (c) [Impact on guidance](#)
- (d) [Next steps](#)

## Background

4. [XRB A1](#) is a financial reporting standard issued under section 12(a) of the Financial Reporting Act 2013 and establishes an accounting standards framework that New Zealand entities are required to, or opting into, to prepare general purpose financial reports (either GAAP or a non-GAAP standard). This standard is issued directly by the XRB Board.
5. XRB A1 outlines the criteria for different financial reporting tiers, classifying entities appropriately based on their size, nature and public accountability. It also specifies the accounting standards and authoritative notices applicable to each Tier reporting across the for-profit and Public Benefit Entities (PBE) sectors.
6. As XRB A1 sets the Accounting Standards Framework in New Zealand, it is important that we respond to feedback from our stakeholders and conduct regular maintenance.

## *Proposed amendments*

7. We initiated a project to enhance XRB A1 in response to several application issues. The improvements are intended to address concerns raised regarding:
  - (a) The definition of Public Accountability;
  - (b) The Tier 1 size threshold ('large') for for-profit public sector entities; and
  - (c) The Tier 4 criteria and provisions for moving between tiers for PBEs.
8. In response, we developed amendments that proposed:
  - (a) updating the definition of public accountability to reflect the International Accounting Standards Boards (IASBs) latest updates, following their second comprehensive review of IFRS for SMEs;
  - (b) clarifying in paragraph 8A(a) that FMC reporting entities do not have public accountability under paragraph 8(b) if they do not have 'higher level of public accountability' under the Financial Markets Conduct Act 2013;
  - (c) clarifying in paragraph 8A(b) that in New Zealand, many entities known as 'brokers' or 'dealers' do not hold client assets in a fiduciary capacity, but instead mainly provide investment portfolio advice and/or transactional services. Judgement is required in determining whether these types of entities hold assets in a fiduciary capacity for a broad group of outsiders as one of their primary businesses when determining whether they meet the public accountability criterion under paragraph 8(b);
  - (d) increasing the Tier 1 size threshold for for-profit public sector entities to \$33 million of total expenses to align with the Tier 1 size threshold for PBEs; and

- (e) clarifying the requirements for the Tier 4 criteria and the connection between the ‘moving between tiers’ provisions – that is, a PBE must not meet the definition of a “specified not-for-profit entity” within primary legislation before it can apply the PBE Tier 4 Requirements, regardless of whether in the current period its total operating payments are less than \$140,000.
9. At its April 2025 meeting, the Board agreed to recommend (to the XRB Board) that the Exposure Draft and accompanying consultation document be issued. The XRB Board approved the Exposure Draft and accompanying consultation at its May 2025 meeting.

#### *Consultation*

10. The consultation was launched in June 2025 with the comment period closing on 29 August 2025. The consultation was directly shared with the Office of the Auditor General and Charities Services and was also publicised more broadly through the XRB’s Accounting Alerts throughout June to August 2025.
11. We received two written submissions on the proposed amendments (included in agenda item 8.1d and agenda item 8.1e). Both submissions were supportive of all the amendments proposed by the Exposure Draft. One comment suggested that paragraphs 70 and 71 of XRB A1 could be combined to streamline the requirements and reduce repetition.
12. Despite this comment, we have decided to retain both paragraphs 70 and 71. Our analysis is documented in the table below.

**Table 1 – Specific suggestions from submissions**

Comment	Explanation/Action
Combine paragraph 70-71 of XRB A1	<ul style="list-style-type: none"> <li>• Paragraph 70 outlines the requirements for transitioning from Tier 1 to Tier 4 based on size, rather than the loss of public accountability. It states that an entity could move to Tier 4 in the period it meets the Tier 4 size criteria.</li> <li>• Paragraph 71 addressed transitions from Tier 2 or Tier 3 to Tier 4, noting that an entity applying Tier 2 or Tier 3 could adopt Tier 4 in the period it meets the Tier 4 criteria.</li> </ul> <p>In our Exposure Draft, we proposed to remove the reference to “size” in paragraph 70. We also revised paragraphs 70 and 71 to explain that an entity meets the Tier 4 criteria when it no longer meets the legislative definition of a “specified not-for-profit entity.” As a result, the wording of paragraph 70 is now aligned with paragraph 71, differing only in the tiers referenced.</p> <p>While a single paragraph could suffice, we consider that retaining separate paragraphs aligns with the existing format in XRB A1, which distinguishes between transitions from Tier 1 due to:</p> <ul style="list-style-type: none"> <li>• Loss of public accountability, and</li> <li>• Meeting the size threshold of a lower tier.</li> </ul>

	<p>Furthermore, XRB A1 currently has separate paragraphs relating to transitions into Tier 3 from Tier 1 (paragraph 63 and 64), and from Tier 2 (paragraph 65), even though each paragraph has the same requirements.</p> <p>Overall, we consider that maintaining this structure helps clarify the distinction between a Tier 1 entity losing public accountability and one no longer qualifying as a “specified not-for-profit entity” and keeping these separate from Tier 2 entities would be clearer for stakeholders understanding.</p> <p>If we were to combine paragraph 70 and 71, we consider there will be other paragraphs throughout XRB A1 which could be combined to streamline the requirements, however this is beyond the scope of this project and these proposed amendments. <b>We therefore proposed to retain both paragraphs 70 and 71 as presented in the Exposure Draft.</b></p>
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**Question for the Board:**

- Q1. Does the Board **AGREE** with not combining paragraphs 70 and 71 as part of these amendments to XRB A1?

**Additional amendments**

13. In addition to the amendments proposed in the Exposure Draft, we have made further minor revisions to:
- (a) Paragraphs 54, 61, and 67 - relating to moving from Tier 4 to a higher Tier.
  - (b) Paragraph BC 57 – relating to why it is appropriate for an FMC reporting entity who does not have a ‘higher level of public accountability’ but holds assets in a fiduciary capacity for a broad group of outsiders can apply Tier 2 (whereas a non-FMC reporting entity would have to apply Tier 1).

*Moving from Tier 4 to a higher tier*

14. We have revised paragraphs 54, 61 and 67 on the basis that by clarifying an entity must not meet the legislative definition of a “specified not-for-profit entity” to meet the Tier 4 criteria, it introduced some further ambiguity in understanding which annual reporting period an entity would need to move to a higher tier from Tier 4.
15. Specifically, these paragraphs (without revision) could now be misinterpreted to suggest that an entity has two additional annual reporting periods, after no longer meeting the legislative definition of a “specified not-for-profit entity”, which already requires two prior reporting periods of operating payments over \$140,000. This interpretation (under the existing XRB A1 wording) would result in an entity having four annual reporting periods before moving to a higher tier resulting in non-compliance with primary legislation.

16. To address this, we have amended the relevant paragraphs to clarify that entities may continue to apply the Tier 4 PBE Accounting Requirements until such time they meet the legislative definition of a “specified not-for-profit entity”.

*Paragraph BC 57*

17. Paragraph BC 57 notes that the XRB considers it appropriate for FMC reporting entities that do not have a ‘higher level of public accountability’ but hold assets in a fiduciary capacity for a broad group of outsiders, to apply Tier 2. In contrast, non-FMC reporting entities in similar circumstances would be required to apply Tier 1.
18. In light of the AASB’s considerations of amendments to the definition of public accountability in Australia, and their reference in board papers to New Zealand’s modifications, staff have reflected upon the circumstances where an FMC reporting entity that does not have a ‘higher level of public accountability’ under the FMC Act could meet paragraph 8(b) of XRB A1 (i.e. holds assets in a fiduciary capacity for a broad group of outsiders).
19. We have reviewed the types of entities outlined by the FMA<sup>2</sup> as not having ‘higher levels of public accountability’ under the FMC Act, and we note this type of scenario seems unlikely to occur as the entities that do not have ‘higher levels of public accountability’ are generally unlikely to hold assets in a fiduciary capacity especially as a primary business.
20. Accordingly, we have determined that it is appropriate to refine paragraph BC 57. The original wording of the paragraph does not adequately reflect the context of this requirement, which is important to understanding why the outcome is considered appropriate in the XRB view.
21. The revised paragraph now emphasises that such cases are expected to be rare. It also outlines that the primary intent of the deeming provision for those entities with a ‘higher level of public accountability’ under the FMC Act is to ensure that they apply Tier 1. In effect, this deeming provision broadens the definition of public accountability to align with FMA’s view on which entities have a higher level of public accountability in New Zealand.

*Potential consequential amendments to the Tier 4 Standard*

22. We have considered whether the proposed amendments to XRB A1 have any consequential amendments to other standards that should be included within the final amending standard.
23. We note the only possibility for consequential amendments we have identified relates to the Tier 4 Standard. The Tier 4 Standard refers to its application by entities that have less than \$140,000 of annual operating payments (refer to [paragraphs 2 and 11 of the Tier 4 Standard](#)).

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<sup>2</sup> For an outline of the types of entities that do not have ‘higher levels of public accountability’ see the FMA website - [Financial reporting exemptions | Financial Markets Authority](#)



24. While the drafting of these paragraphs could be improved to clarify application of the Tier 4 criteria (including the legislative definition of a “specified not-for-profit entity”), we do not consider this to be necessary at this time given:
- (a) The current Tier 4 Standard has only been mandatory since 1 April 2024 – it would make sense to allow more time for its application to understand other improvements that could be incorporated as part of providing a new version:
  - (b) With the volume of Tier 4 entities that apply the Tier 4 Standard and the level of communication involved to explain any potential changes and ease potential concerns around change, it is not considered sensible to release new versions of the Tier 4 Standard for such a minor amendment at this stage; and
  - (c) The paragraphs are not technically incorrect, and there is sufficient context to support the appropriate application of the Tier 4 Standard in line with statutory reporting requirements.

#### Questions for the Board:

- Q2. Does the Board have any **FEEDBACK** on the further revisions made to the ‘moving between tiers’ provisions in paragraphs 54, 61 and 67 and the additional explanations added to BC57?
- Q3. Does the Board **AGREE** with not proposing any consequential amendments to the Tier 4 Standard at this time?
- Q4. Subject to final amendments being reviewed by the Chair, does the Board **AGREE TO RECOMMEND** the amending standard *2025 Amendments to XRB A1 Application of the Accounting Standards Framework* for issue to the XRB Board?

#### Impact on guidance

25. We note that guidance published on the XRB website referring to the definition of public accountability and other related content in XRB A1 will need to be updated once the amending standard is gazetted. As this guidance is explanatory in nature and is not secondary legislation, it does not require a separate amending standard to make revisions, nor does it require us to consult on any changes.
26. Our approach has been to first assess whether related guidance remains necessary, and then determine what updates are required. We have not undertaken a full review of this guidance, as our objective is to prioritise alignment with the updates made through this project, and the revision of any other out-of-date information.
27. We have identified the following guidance as being impacted:
- (a) [Explanatory Guidance A1 Guide to Application of the Accounting Standards Framework](#)

(b) [Staff guidance - Definition of public accountability in XRB A1](#)**Explanatory Guidance A1 Guide to Application of the Accounting Standards Framework**

28. The table below outlines the proposed changes to EG A1, with a revised version contained in agenda item 8.1c. We note that many of these changes revise out of date information – with only several changes relating to the amendments proposed to XRB A1.

**Table 3 – Updates to EG A1 Guide to Application of the Accounting Standards Framework**

Page	Section	Update
Cover	—	Updated reporting periods relevant to 1 Jan 2027  Noted that the explanatory document is not secondary legislation rather than has no legal status to be more precise.  Noted that the document was updated in December 2025 to align with when we plan to issue this new version
4	Paragraph 5	Updated when the Accounting Standards Framework was last updated to December 2025 (to account for our change to the for-profit public sector entity Tier 1 threshold).
6	Paragraph 13	Added incorporated societies to entities required to comply with GAAP (final bullet point). Added in reference to specified not-for-profit entities being defined by the Financial Reporting Act 2013 for both incorporated societies and charities.
7	Paragraph 20	Added Incorporated Societies Act 2022 as legislation that allows entities to apply non-GAAP standards (updated final bullet point)
9	Paragraph 30	Updated for the new Tier 3 and Tier 4 standards
10	Paragraph 36	Updated Table 1: revise for-profit public sector threshold to \$33 million of expenses
11	Paragraph 38 and 38(a)(ii)	Updated for-profit public sector threshold to \$33 million, and the definition of public accountability
12	Figure 3	Noted in diagram that Step 2 applies to for-profit entities required to prepare GPFR (As opposed to just for-profit entity for clarity)
14	Paragraph 47	Removed sentence for NZ IFRS RDR that <i>“The reduced disclosures are consistent and substantially harmonised, with the requirements in Australia for Tier 2 entities.”</i>
14	Paragraph 57	Updated table for new PBE size thresholds; revised Tiers 1 and 2 threshold to \$33 million of total expenses and Tiers 2 and 3 threshold to \$5 million of total expenses;  Updated for new Tier 3 and 4 standards

14	Paragraph 59	Updated Tier 1 and 2 threshold for PBEs to \$33 million of total expenses
16	Paragraph 60(a)(ii)	Updated the definition of public accountability
14	Paragraph 68 (Figure 4)	Updated Figure 4 for the new Tier 3 and Tier 4 standards
17 and 18	Paragraphs 77–82 (84 previously as deleted two paragraphs)	<p>Update headings and related paragraphs for new Tier 3 and Tier 4 standards</p> <p>Removed paragraph 80 (text below) as new Tier 3 Standard does not have explanatory guidance (this relates to the previous standard) although noting we continue to have optional templates with guidance notes – <i>‘The Tier 3 requirements are accompanied by Explanatory Guides containing optional templates and guidance notes to assist Tier 3 entities to apply their respective requirements.’</i></p> <p>Removed paragraph 84 (text below) as new Tier 4 Standard does not have explanatory guidance (this relates to the previous standard) although noting we continue to have optional templates with guidance notes for not-for-profit entities – <i>‘The Tier 4 requirements are accompanied by Explanatory Guides containing optional templates and guidance notes to assist Tier 4 entities to apply their respective requirements.’</i></p>
20	History of amendments	Updated to reflect changes made to the Tier size thresholds

**Staff guidance - Definition of public accountability in XRB A1**

29. This document was drafted to provide interim application guidance pending formal updates to XRB A1. As the content of this guidance has now been incorporated directly into XRB A1 through these proposed amendments, we consider the standalone guidance redundant. Accordingly, we propose to remove this guidance from active use.

**Questions for the Board:**

- Q5. Does the Board have any **FEEDBACK** on the proposed revisions to EG A1: Guide to Application of the Accounting Standards Framework?
- Q6. Subject to final amendments being approved by the Chair, does the Board **APPROVE** the revised EG A1: Guide to Application of the Accounting Standards Framework for issue?
- Q7. Does the Board **AGREE** the staff guidance *Definition of public accountability in XRB A1* can be removed and archived?

**Next steps**

30. Subject to the Board's agreement, staff will seek the XRB Board's approval to issue the proposed amendments to XRB A1 at its meeting scheduled on **12 November 2025**. Following approval, we plan to gazette the amending standard on 27 November 2025, where it will become effective 28 days later on 25 December 2025.
31. Once the amending Standard has been gazetted, we will publish the revised Explanatory Guidance A1 *Guide to Application of the Accounting Standards Framework* (EG A1) on our website to reflect the updated requirements.
32. We will also update the Accounting Standards Framework document published on our website for the updated for-profit public sector entity Tier 1 threshold.

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This amendment was made under section 12(a) of the [Financial Reporting Act 2013](#) by the External Reporting Board after complying with section 22 of that Act.

This Standard is secondary legislation for the purposes of the Legislation Act 2019.

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### Minimum Legislative Information

*This information is not part of the standard.*

**This standard is secondary legislation issued under the authority of the Legislation Act 2019.**

<b>Title</b>	2025 Amendments to XRB A1 <i>Application of the Accounting Standards Framework</i>   Amendment   2025
<b>Principal or amendment</b>	Amendment
<b>Consolidated version</b>	No
<b>Empowering Act and provisions</b>	This standard was made under section 12(a) of the <a href="#">Financial Reporting Act 2013</a> .
<b>Replacement empowering Act and provision</b>	Not applicable.
<b>Maker name</b>	External Reporting Board
<b>Administering agency</b>	External Reporting Board
<b>Date made</b>	12 November 2025
<b>Publication date</b>	27 November 2025
<b>Notification date</b>	27 November 2025
<b>Commencement date</b>	This standard takes effect on 25 December 2025.
<b>End date</b>	Not applicable
<b>Consolidation as at date</b>	Not applicable
<b>Related instruments</b>	<a href="#">XRB A1 <i>Application of the Accounting Standards Framework</i></a>

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### **Explanatory note**

*This note is not part of the standard.*

This standard has been issued to introduce additional guidance and clarification in response to several application challenges relating to the definition of public accountability and the PBE ‘moving between tiers’ provisions. The amending Standard also increases the Tier 1 size threshold for for-profit public-sector entities to align with the Tier 1 size threshold for Public Benefit Entities (PBEs) to enhance the consistency of the Accounting Standards Framework.

### **Copyright**

*This notice is not part of the standard.*

This standard is secondary legislation and, by section 27 of the Copyright Act 1994, no copyright exists in it.

### **ISBN**

978-1-99-100570-0

### **Commencement and application**

*This note is not part of the standard.*

This standard has a mandatory date of 1 January 2027 meaning it must be applied by reporting entities for accounting periods that begin on or after this date.

Application to an earlier accounting period is permitted for accounting periods that end after this standard takes effect – refer to paragraphs 81 - 84 of this standard.

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## Part A – Introduction

This amending Standard introduces additional guidance and clarification in response to several application challenges relating to the definition of public accountability and the PBE ‘moving between tiers’ provisions. The amending Standard also increases the Tier 1 size threshold for for-profit public-sector entities to align with the Tier 1 size threshold for Public Benefit Entities (PBEs) to enhance the consistency of the Accounting Standards Framework.

Specifically, this amending Standard:

- (a) updates the definition of public accountability to reflect the IASBs latest update following the second comprehensive review of IFRS for SMEs;
- (b) clarifies in paragraph 8A(a) that FMC reporting entities do not have public accountability under paragraph 8(b) if they do not have ‘higher level of public accountability’ under the Financial Markets Conduct Act 2013;
- (c) clarifies in paragraph 8A(b) that in New Zealand, many entities known as ‘brokers’ or ‘dealers’ do not hold client assets in a fiduciary capacity, but instead mainly provide investment portfolio advice and/or transactional services. Judgement is required in determining whether these types of entities hold assets in a fiduciary capacity for a broad group of outsiders as one of their primary businesses when determining whether they meet the public accountability criterion under paragraph 8(b);
- (d) increases the Tier 1 size threshold for for-profit public sector entities to \$33 million of total expenses to align with the Tier 1 size threshold for PBEs; and
- (e) clarifies the requirements for the Tier 4 criteria and the connection between the ‘moving between tiers’ provisions – that is, a PBE must not meet the definition of a “specified not-for-profit entity” within primary legislation before it can apply the PBE Tier 4 Requirements, regardless of whether in the current period its total operating payments are less than \$140,000.

## Part B – Scope

An entity shall apply this amending Standard when it prepares, or when it opts under an enactment to prepare, General Purpose Financial Reports (GPFR) in accordance with accounting standards issued by the External Reporting Board.

## Part C – Amendments to XRB A1 *Application of the Accounting Standards Framework*

Paragraph 5, 7, 8, and 8(b) are amended, paragraph 8A is added and paragraph 10 is deleted. Paragraphs 8(a), 9, 11, 12 and 13 are not amended but are included for reference. New text is underlined and deleted text is struck through.

### A. INTRODUCTION

...

#### Non-GAAP standard

- 5 Certain enactments permit an entity that does not meet the legislative definition of ~~size threshold to be a~~ “specified not-for-profit entity”<sup>1</sup> to prepare its financial statements in accordance with a “non-GAAP standard”. A “non-GAAP standard” is a standard issued by the XRB or NZASB pursuant to section 12(a) of the Financial

<sup>1</sup> Section 46 of the Financial Reporting Act 2013 provides that an entity is a “specified not-for-profit entity” if, in each of the preceding two accounting periods, its total operating payments are \$140,000 or more. Standard XRB A2 Meaning of Specified Statutory Size Thresholds sets out the meaning for the size threshold of a specified not-for-profit entity.

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Reporting Act 2013 that is stated to be a non-GAAP standard. Only the Tier 4 PBE Accounting Requirements comprise non-GAAP standards.

...

### Public accountability

- 7 For the purpose of applying the Tier 1 criteria, an entity has public accountability if:
- (a) it meets the IASB definition of public accountability ~~as specified~~ in paragraph 8 (subject to paragraph ~~408A~~); or
  - (b) it is deemed to have public accountability in New Zealand in accordance with paragraph 9.
- 8 ~~In accordance with the IASB definition, The IASB defines an entity as having~~ has public accountability if:
- (a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
  - (b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (for example, most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks often would meet this second criterion).
- 8A** In New Zealand, the application of the paragraph 8(b) is subject to the following additional considerations.
- (a) An FMC reporting entity is considered to have public accountability in accordance with paragraph 8(b) if, and only if, the FMC reporting entity is deemed to have public accountability in accordance with paragraph 9.
  - (b) Paragraph 8(b) provides that “banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks” often have public accountability. In New Zealand, this statement may not necessarily apply to every type of entity listed in the IASB definition. For example, in New Zealand, many entities known as ‘brokers’ or ‘dealers’ do not hold client assets in a fiduciary capacity, but instead mainly provide investment portfolio advice and/or transactional services. Judgement is required in determining whether a non-FMC reporting entity holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses, when applying paragraph 8(b). Additional guidance is provided in paragraphs 11 and 12.
- 9 An entity is deemed to have public accountability in New Zealand if:
- (a) it is an FMC reporting entity or a class of FMC reporting entities that is considered to have a “higher level of public accountability” than other FMC reporting entities under section 461K of the Financial Markets Conduct Act 2013;<sup>2</sup> or
  - (b) it is an FMC reporting entity or a class of FMC reporting entities that is considered to have a “higher level of public accountability” by a notice issued by the Financial Markets Authority (FMA) under section 461L(1)(a) of the Financial Markets Conduct Act 2013.
- 10 ~~Notwithstanding paragraph 8(b), an FMC reporting entity is not considered to have public accountability unless it is considered to have a “higher level of public accountability” than other FMC reporting entities in accordance with paragraph 9(a) or 9(b). [Deleted]~~
- 11 Some entities may hold assets in a fiduciary capacity for a broad group of outsiders because they hold and manage financial resources entrusted to them by clients, customers or members not involved in the management of the entity. However, if they do so for reasons incidental to a primary business, that does not mean that they have public accountability. For example:
- (a) this may be the case for travel or real estate agents, schools, charitable organisations, co-operative enterprises requiring a nominal membership deposit and sellers that receive payment in advance of delivery of the goods or services such as utility companies;

<sup>2</sup> The terms “FMC reporting entity” and an FMC reporting entity with a “higher level of public accountability” are set out in the Financial Markets Conduct Act 2013. Under the Financial Markets Conduct Act 2013, certain FMC reporting entities are considered to have a higher level of public accountability for financial reporting purposes. These include issuers of equity securities or debt securities under a regulated offer; managers of registered schemes (in respect of financial statements of a scheme or fund); listed issuers; registered banks; licensed insurers; credit unions and building societies. In addition, the FMA may, by notice, specify that an entity (or a group of entities) is considered to have a higher level of public accountability or not to have a higher level of public accountability than other FMC reporting entities.

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- (b) in the public sector, a government department whose primary business is the provision of state housing to tenants does not have public accountability if it also manages trust money (rental bonds) on behalf of those tenants as an incidental activity to its primary business; and
  - (c) in the not-for-profit sector, a not-for-profit entity that provides a wide range of welfare services to beneficiaries as its primary activity does not have public accountability merely because it holds welfare benefits on behalf of some of those beneficiaries to assist them with budgeting. While the entity is holding assets in a “fiduciary capacity for a broad group of outsiders” it is not holding them “as one of its primary businesses”. This is because providing the budgeting services is an incidental activity to its primary activity of providing a range of welfare services to beneficiaries.
- 12 Trustees of a trust are required to act in a fiduciary capacity for the benefit of the beneficiaries of that trust or in achieving the objects of the trust. However, this does not necessarily mean that the trust has public accountability as defined in paragraph 8(b). For example, a trust would not have public accountability when the financial resources or other resources held and managed by the trust are not the resources of specified individual beneficiaries, in the manner that the financial resources of the entities listed in paragraph 8(b) are the resources of the individual clients, customers and members of those entities.
- 13 Where the entity is a group in New Zealand, and the parent/controlling entity of the group has public accountability, the group is deemed to have public accountability. A group is not considered to have public accountability solely by reason of a subsidiary/controlled entity having public accountability.

Paragraphs 17(a)(ii), 18 and 29 are amended. Paragraphs 19, 20, 21, 28 and 30 are not amended but are included for reference. New text is underlined and deleted text is struck through.

## **B. FOR-PROFIT ENTITIES**

### **Tier structure**

...

#### **Tier 1 criteria**

- 17 Subject to the requirements on moving between tiers (set out in paragraphs 24 to 30), a for-profit entity shall report in accordance with Tier 1 For-profit Accounting Requirements if it:
- (a) (i) has public accountability at any time during the reporting period; or
  - (ii) is a large for-profit public sector entity (as defined in paragraph 18); or
  - (b) is eligible to report in accordance with the accounting requirements of Tier 2 but does not elect to report in accordance with that tier.
- 18 For the purpose of applying the Tier 1 size criteria, a for-profit public sector entity is large if it has total expenses over ~~\$30 million~~ \$33 million. Total expenses means the total expenses (including income tax expense) recognised in its profit or loss by an entity in accordance with Tier 1 For-profit Accounting Requirements, where profit or loss is defined as the total of income less expenses, excluding the components of other comprehensive income. Where income and expenses are offset as required or permitted by a relevant accounting standard, any net expense is included in total expenses. Where the entity reporting is a group, total expenses is applied to the group comprising the parent/controlling entity and all its subsidiaries/controlled entities.
- 19 A for-profit entity that opts under an enactment to prepare GPFR in accordance with Tier 1 For-profit Accounting Requirements shall apply Tier 1 For-profit Accounting Requirements for the reporting period in which it opts to apply the Tier 1 For-profit Accounting Requirements.

#### **Tier 2 criteria**

- 20 Subject to the requirements on moving between tiers (set out in paragraphs 24 to 30), a for-profit entity may elect to report in accordance with Tier 2 For-profit Accounting Requirements if it:
- (a) does not have public accountability; and

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(b) is not a large for-profit public sector entity (as defined in paragraph 18).

- 21 A for-profit entity that opts under an enactment to prepare GPFR in accordance with Tier 2 For-profit Accounting Requirements shall apply Tier 2 For-profit Accounting Requirements for the reporting period in which it opts to apply the Tier 2 For-profit Accounting Requirements.

...

## Moving between tiers

...

### Moving into Tier 2

#### *Tier 1 to Tier 2*

- 28 Where an entity that had applied Tier 1 For-profit Accounting Requirements subsequently meets the Tier 2 criteria because it no longer has public accountability, it must continue to apply Tier 1 For-profit Accounting Requirements for the reporting period during which it ceased to have public accountability. It may apply Tier 2 For-profit Accounting Requirements for the reporting period after it ceases to have public accountability.
- 29 Where ~~a for-profit public sector~~ an entity that had applied Tier 1 For-profit Accounting Requirements subsequently meets the Tier 2 size criteria because it is no longer large (as defined in paragraph 18), it may elect to apply Tier 2 For-profit Accounting Requirements for the reporting period in which it meets the Tier 2 size criteria.
- 30 Where an entity that had applied Tier 1 For-profit Accounting Requirements subsequently applies Tier 2 For-profit Accounting Requirements, the entity's recognition and measurement accounting policies are not changed as a result. Tier 1 For-profit Accounting Requirements and Tier 2 For-profit Accounting Requirements have identical recognition and measurement requirements. Therefore, moving between these two for-profit tiers does not trigger any changes in the entity's recognition and measurement accounting policies, other than as may be required by Tier 2 For-profit Accounting Requirements. Voluntary changes in accounting policies shall be made only when such changes comply with the requirements of NZ IAS 8.

...

Paragraphs 37, 42, 42A, 54, 61, 67, 70 and 71 are amended. Paragraphs 38, 39, 40, 41, 53, 55, 62, 68, 69 and 72 are not amended but are included for reference. New text is underlined and deleted text is struck through.

## C. PUBLIC BENEFIT ENTITIES

### Tier structure

...

#### Tier 1 criteria

- 37 Subject to the requirements on moving between tiers (set out in paragraphs 47 to 72), a PBE shall report in accordance with Tier 1 PBE Accounting Requirements if it:
- (a) (i) has public accountability<sup>3</sup> at any time during the reporting period; or
  - (ii) is large (as defined in paragraph 38); or

<sup>3</sup> The term "public accountability" is used here with the meaning specified in this document. It is different from the manner in which it was used prior to 2011 in the Accounting Standards Framework. This meaning is also different from the way in which "publicly accountable" is normally used in the public sector and not-for-profit sector. While entities in the public sector and not-for-profit sector are generally considered to be publicly accountable, it does not mean that all entities in those sectors have public accountability (and are therefore in Tier 1). The definition of public accountability has a particular technical meaning and is narrower than the generic term publicly accountable as it is commonly used.

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- (b) is eligible to report in accordance with the accounting requirements of another tier but does not elect to report in accordance with that other tier.

38 For the purpose of applying the Tier 1 size criteria, a PBE is large if it has total expenses over \$33 million. Total expenses means the total expenses (including losses and grant expenses), recognised in its surplus or deficit by an entity in accordance with Tier 1 PBE Accounting Requirements, where surplus or deficit is defined as the total of revenue less expenses, excluding the components of other comprehensive revenue and expense. Where revenue and expense are offset as required or permitted by a relevant accounting standard, any net expense is included in total expenses. Where the entity reporting is a group, total expenses is that of the group comprising the controlling entity and all its controlled entities.

**Tier 2 criteria**

39 Subject to the requirements on moving between tiers (set out in paragraphs 47 to 72), a PBE may elect to report in accordance with Tier 2 PBE Accounting Requirements if it:

- (a) does not have public accountability; and  
(b) is not large (as defined in paragraph 38).

**Tier 3 criteria**

40 Subject to the requirements on moving between tiers (set out in paragraphs 47 to 72), a PBE may elect to report in accordance with Tier 3 PBE Accounting Requirements if it:

- (a) does not have public accountability; and  
(b) has total expenses less than or equal to \$5 million.

41 For the purpose of applying the Tier 3 size criteria, total expenses means total expenses (including losses and grant expenses) recognised in accordance with Tier 3 PBE Accounting Requirements in the Statement of Financial Performance. Where revenue and expense are offset as required or permitted, any net expense is included in total expenses. Where the entity reporting is a group, total expenses is that of the group comprising the controlling entity and all its controlled entities.

**Tier 4 criteria**

42 Subject to the requirements on moving between tiers (set out in paragraphs 47 to 72), a PBE may elect to report in accordance with Tier 4 PBE Accounting Requirements if it is permitted by an Act to report in accordance with non-GAAP standards (i.e., the cash basis of accounting) because it does not have public accountability and does not meet the legislative definition of size threshold to be a “specified not-for-profit entity”.<sup>4</sup>

42A For the purpose of determining whether an entity meets the legislative definition of a “specified not-for-profit entity”, applying the legislative size threshold, where an entity has controlled entities,<sup>5</sup> total operating payments means the combined operating payments of the entity and all its controlled entities.<sup>6</sup> An entity may elect to report in accordance with Tier 4 PBE Accounting Requirements where the combined total operating payments of the entity and all its controlled entities do not mean the entity meets the legislative definition of a “specified not-for-profit entity” exceed the legislative size threshold. Where the combined total operating payments mean the entity meets the legislative definition of a “specified not-for-profit entity” exceed the legislative size threshold, the entity shall apply the criteria for other tiers to determine the appropriate tier for reporting.

...

<sup>4</sup> Standard XRB A2 *Meaning of Specified Statutory Thresholds* sets out the meaning for the size threshold of a “specified not-for-profit entity”. Standard XRB A2 can be accessed on: <http://www.xrb.govt.nz/accounting-standards/for-profit-entities/xrb-a2/>

<sup>5</sup> An entity determines whether it controls another entity in accordance with GAAP.

<sup>6</sup> The combined operating payments of the entity and all its controlled entities excludes any payments between the entity and the controlled entities and/or between the controlled entities.

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## Moving between tiers

### Moving into Tier 1

...

#### *Tier 4 to Tier 1*

- 53 Where an entity that had applied Tier 4 PBE Accounting Requirements subsequently has public accountability, it shall apply Tier 1 PBE Accounting Requirements for the reporting period in which it has public accountability.
- 54 Where an entity that had applied Tier 4 PBE Accounting Requirements subsequently ~~no longer meets the Tier 4 criteria but~~ meets the Tier 1 size criteria, it may continue to report in accordance with Tier 4 PBE Accounting Requirements until it meets the legislative definition of a “specified not-for-profit entity” at which point it shall apply Tier 1 PBE Accounting Requirements. ~~for the annual reporting period in which it fails to meet the Tier 4 criteria and the following annual reporting period, and any interim reporting periods within those annual reporting periods.~~
- 55 Where an entity that had applied Tier 4 PBE Accounting Requirements subsequently applies Tier 1 PBE Accounting Requirements, it shall apply PBE FRS 47.

### Moving into Tier 2

...

#### *Tier 4 to Tier 2*

- 61 Where an entity that had applied Tier 4 PBE Accounting Requirements subsequently ~~no longer meets the Tier 4 criteria but~~ meets the Tier 2 criteria, it may continue to report in accordance with Tier 4 PBE Accounting Requirements until it meets the legislative definition of a “specified not-for-profit entity” at which point it shall apply Tier 2 PBE Accounting Requirements. ~~for the annual reporting period in which it fails to meet the Tier 4 criteria and the following annual reporting period, and any interim reporting periods within those annual reporting periods.~~
- 62 Where an entity that had applied Tier 4 PBE Accounting Requirements subsequently applies Tier 2 PBE Accounting Requirements, it shall apply PBE FRS 47.

### Moving into Tier 3

...

#### *Tier 4 to Tier 3*

- 67 Where an entity that had applied Tier 4 PBE Accounting Requirements subsequently ~~no longer meets the Tier 4 criteria but~~ meets the Tier 3 criteria, it may continue to report in accordance with Tier 4 PBE Accounting Requirements until it meets the legislative definition of a “specified not-for-profit entity” at which point it shall apply Tier 3 PBE Accounting Requirements. ~~for the annual reporting period in which it fails to meet the Tier 4 criteria and the following annual reporting period, and any interim reporting periods within those annual reporting periods.~~
- 68 Where an entity that had applied Tier 4 PBE Accounting Requirements subsequently applies Tier 3 PBE Accounting Requirements, it shall account for the change in accounting policies in accordance with Tier 3 PBE Accounting Requirements.

### Moving into Tier 4

#### *Tier 1, Tier 2 or Tier 3 to Tier 4*

- 69 Where an entity that had applied Tier 1 PBE Accounting Requirements subsequently meets the Tier 4 criteria because it no longer has public accountability, it must continue to apply Tier 1 PBE Accounting Requirements

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for the reporting period during which it ceased to have public accountability. It may apply Tier 4 PBE Accounting Requirements for the reporting period after it ceases to have public accountability.

- 70 Where an entity that had applied Tier 1 PBE Accounting Requirements subsequently meets the Tier 4-size criteria as it no longer meets the legislative definition of a “specified not-for-profit entity”, it may elect to apply Tier 4 PBE Accounting Requirements for the reporting period in which it no longer meets the legislative definition of a “specified not-for-profit entity” Tier 4 size criteria.
- 71 Where an entity that had applied Tier 2 PBE Accounting Requirements or Tier 3 PBE Accounting Requirements subsequently meets the Tier 4 criteria as it no longer meets the legislative definition of a “specified not-for-profit entity”, it may elect to apply Tier 4 PBE Accounting Requirements for the reporting period in which it no longer meets the legislative definition of a “specified not-for-profit entity” Tier 4 criteria.
- 72 Where an entity that had applied Tier 1 PBE Accounting Requirements, Tier 2 PBE Accounting Requirements or Tier 3 PBE Accounting Requirements subsequently applies Tier 4 PBE Accounting Requirements, it shall account for the change in accounting policies in accordance with Tier 4 PBE Accounting Requirements.

Paragraphs 81, 82, 83 and 84 are added along with associated headings and footnote. New text is underlined.

## D. COMMENCEMENT AND APPLICATION

...

### **2025 Amendments to XRB A1 Application of the Accounting Standards Framework**

- 81 2025 Amendments to XRB A1 Application of the Accounting Standards Framework, issued in November 2025, amended the definition of public accountability, increased the Tier 1 size threshold for-profit public sector entities to \$33 million of total expenses and clarified requirements for moving between tiers for PBEs. An entity shall apply those amendments in accordance with the commencement and application date provisions in paragraphs 82-84. An entity that applies these amendments to an ‘early adoption accounting period’ shall disclose that fact.

### **When amending Standard takes effect (section 27 Financial Reporting Act 2013)**

- 82 The amending Standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019<sup>7</sup>.

### **Accounting period in relation to which standards commence to apply (section 28 Financial Reporting Act)**

- 83 The accounting periods in relation to which this amending Standard commences to apply are:
- (a) For an **early adopter**, those accounting periods following, and including, the **early adoption accounting period**.
  - (b) For any other reporting entity, those accounting periods following, and including, the first accounting period for the entity that begins on or after the **mandatory date**.

- 84 In paragraph 83:

**Early adopter** means a reporting entity that applies this amending Standard for an early adoption accounting period.

**Early adoption accounting period** means an accounting period of the early adopter:

- (a) That begins before the mandatory date but has not ended or does not end before this amending Standard takes effect (and to avoid doubt, that period may have begun before this amending Standard takes effect); and
- (b) For which the early adopter:

<sup>7</sup> This footnote is not part of the amending Standard. The amending Standard was published on 27 November 2025 and takes effect on 25 December 2025.

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- (i) First applies this amending Standard in preparing its financial report; and
- (ii) Discloses in its financial report for that accounting period that this amending Standard has been applied for that period.

**Mandatory date means 1 January 2027.**

Paragraphs BC50. – BC59. are added. New text is underlined and deleted text is struck through.

## **BASIS FOR CONCLUSIONS ON STANDARD XRB A1 APPLICATION OF THE ACCOUNTING STANDARDS FRAMEWORK**

...

### **2025 Amendments to XRB A1 Application of the Accounting Standards Framework**

BC50. The XRB issued 2025 Amendments to XRB A1 Application of the Accounting Standards Framework to address several application challenges and to enhance the consistency of the Accounting Standards Framework.

#### Definition of public accountability

BC51. The definition of public accountability has been amended to reflect modifications to the definition of public accountability made by the IASB, and to address several application challenges. The XRB decided it was important to continue to reflect the IASB definition of public accountability within the definition of public accountability in XRB A1. Accordingly, the definition has been aligned for the minor alterations the IASB have made as part of its second comprehensive review of the IFRS for SMEs Accounting Standard (where the IASB define public accountability), released in February 2025.

BC52. In addition, the XRB has received feedback that certain types of entities – namely, certain brokers – find paragraph 8(b) challenging to apply. Originally, paragraph 8(b) noted that most entities within the categories specified in that paragraph, including most securities brokers/dealers, would meet the ‘fiduciary capacity’ part of the IASB definition of public accountability. However, the XRB noted that in New Zealand, many entities referred to as ‘brokers’ do not hold client money or property. In many cases, the primary business of securities brokers/dealers is to buy/sell securities on behalf of clients and/or provide investment advisory and portfolio administration services. Under the Financial Markets Conduct Act 2013 (FMC Act), some securities brokers/dealers are classified as having “higher levels of accountability” compared to other FMC reporting entities, based on the nature of the service provided.

BC53. Some constituents also expressed concerns about paragraph 10 of XRB A1, noting it adds unnecessary complexity to the application of the definition of public accountability and can be difficult to interpret. Originally paragraph 10 noted that, notwithstanding paragraph 8(b), an FMC reporting entity is not considered to have public accountability unless it is considered to have a “higher level of public accountability” than other FMC reporting entities in accordance with paragraph 9(a) or 9(b).

BC54. To address these concerns, the XRB amended the following.

- (a) Paragraph 10 was replaced by paragraph 8A(a). The effect of paragraph 8A(a) is the same as paragraph 10. That is, an FMC reporting entity does not have public accountability under paragraph 8(b) if that entity does not have a ‘higher level of public accountability’ under the FMC Act. However, the wording of paragraph 8A(a) has been streamlined and clarified. To further enhance the understandability of this paragraph and how it interacts with paragraph 8(b), the paragraph is now located directly after paragraph 8(b).
- (b) Paragraph 8A(b) was added, which clarifies that in New Zealand, judgement must be applied in determining whether an entity within a category specified in paragraph 8(b) holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This clarifies that the IASB statement that entities within these categories often meet the ‘fiduciary capacity’ part of the IASB definition of public accountability may not necessarily hold true for every specified category in New Zealand.



2025 Amendments to XRB A1 *Application of the Accounting Standards Framework*  
| Amendment | 2025

- BC55. The XRB noted that these amendments do not alter, and there was no intention to alter, the IASB definition of public accountability. Instead, these amendments were only intended to clarify the application of the second part of that definition (paragraph 8(b)) in New Zealand.
- BC56. The XRB also considered that paragraph 8A(a) should result in the same outcome as the removed paragraph 10. That is, the following still applies when an entity does not meet the first part of the IASB definition, i.e. paragraph 8(a).
- (a) If the entity is an FMC reporting entity, then it has public accountability only if it is designated as having a ‘higher level of public accountability’ under the FMC Act.
  - (b) If the entity is not an FMC reporting entity, then it must consider whether it meets the second part of the IASB definition of public accountability, which relates to holding assets in a fiduciary capacity for a broad group of outsiders, i.e. paragraph 8(b).
- BC57. Some constituents raised questions around whether it is logical that all non-FMC reporting entities that hold assets in a fiduciary capacity for a broad group of outsiders as one of their primary businesses must report under Tier 1 – whereas FMC reporting entities in a similar position can report under Tier 2 if they do not have a ‘higher level of public accountability’ under the FMC Act (assuming that they are not a ‘large’ for-profit public sector entity or a ‘large’ PBE). The XRB considers that this outcome remains appropriate, noting the following:
- (a) The XRB expects it to be rare for FMC reporting entities that do not have a ‘higher level of public accountability’ under the FMC Act to hold assets in a fiduciary capacity for a broad group of outsiders as one of their primary businesses. The deeming provision in XRB A1 was primarily intended to ensure that those FMC reporting entities designated as having a ‘higher level of public accountability’ under the FMC Act are considered publicly accountable for the purposes of applying the XRB Accounting Standards Framework.
  - (b) The XRB recognises that the FMA, under the FMC Act, has the ability to vary the level of public accountability of an FMC reporting entity. In addition, under the FMC Act, FMC reporting entities that do not have a ‘higher level of public accountability’ are nevertheless subject to regulatory requirements, including in relation to holding assets for others. Non-FMC reporting entities are not subject to such regulatory requirements. Therefore, the XRB does not consider it appropriate to allow a non-FMC reporting entity to report under reduced reporting requirements if it holds assets in a fiduciary capacity for a broad group of outsiders as one of their primary businesses as per paragraph 8(b). This was considered when XRB A1 was originally drafted and remains relevant.

*Increase Tier 1 size threshold ‘large’ for the for-profit public sector entities*

- BC58. In February 2024, the XRB issued *Updated PBE Tier Sizes*, which raised the PBE Tier 1 size threshold from \$30 million to \$33 million of total expenses. To maintain consistency within the Accounting Standards Framework for Tier 1 reporters, and to prevent a public sector entity arbitraging across the two sectors, the XRB decided to increase the Tier 1 size threshold for for-profit public sector entities from \$30 million to \$33 million of total expenses.

*Tier 4 criteria and ‘moving between tiers’ provisions*

- BC59. The XRB received feedback that the Tier 4 criteria and corresponding ‘moving between tiers’ provisions within XRB A1 were unclear. This was particularly in the case when a PBE’s total operating payments fall below \$140,000 but were above \$140,000 in preceding reporting periods. The relevant paragraphs have been amended to clarify that a PBE can only apply the PBE Tier 4 Requirements if it does not meet the legislative definition of a “specified not-for-profit entity”. Therefore, a PBE must have at least one period in the preceding two periods where total operating payments were less than \$140,000 to not be considered a “specified not-for-profit entity” and to be able to apply the PBE Tier 4 Requirements immediately when they meet the Tier 4 criteria (and the PBE must also not have public accountability).



## **EXPLANATORY GUIDE A1: GUIDE TO APPLICATION OF THE ACCOUNTING STANDARDS FRAMEWORK (EG A1)**

**Issued by the External Reporting Board**

April 2016

**Relevant to reporting periods beginning on or after 1 January 2027**

This Explanatory Guide outlines the reporting requirements for entities that have a statutory obligation (or optionally elect under an enactment) to prepare general purpose financial reports in accordance with standards issued by the External Reporting Board (XRB). It also sets out the roles and functions of the XRB and its sub-Board, the New Zealand Accounting Standards Board (NZASB), in issuing accounting standards and authoritative notices.

*XRB A1 Application of the Accounting Standards Framework* (XRB A1), issued in December 2015, gives effect to the Accounting Standards Framework on completion of its staged implementation. XRB A1 is applicable to all reporting entities for reporting periods beginning on or after 1 January 2016, with early application permitted from 1 April 2015.

This Explanatory Guide is based on Standard XRB A1. It is an explanatory document and is not secondary legislation. It was issued in April 2016 and updated in December 2017, June 2018, July 2019, October 2019, December 2021 and December 2025.

## EG A1 Guide to Application of the Accounting Standards Framework

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## EG A1 Guide to Application of the Accounting Standards Framework

## 1. Introduction

### Purpose and Content of this Explanatory Guide

- 1 This Explanatory Guide (EG) provides an overview of the reporting requirements for entities that have a statutory obligation (or that optionally elect under an enactment) to prepare general purpose financial reports (GPFR) in accordance with XRB standards.
- 2 The contents of this Explanatory Guide reflect the requirements of Standard XRB A1 *Application of the Accounting Standards Framework* (XRB A1). XRB A1 is the overarching standard issued by the External Reporting Board (XRB Board) to give effect to the Accounting Standards Framework.<sup>1</sup> It is relevant for reporting by entities for annual or interim reporting periods beginning on or after 1 January 2016, with early application permitted for all reporting entities for reporting periods beginning on or after 1 April 2015.
- 3 This Explanatory Guide has been issued for explanatory purposes only and has no legal status. It covers five main topics:
  - The roles and responsibilities of the XRB Board, and its sub-Board the New Zealand Accounting Standards Board (NZASB);
  - The legal requirement on certain entities to prepare financial reports that comply with generally accepted accounting practice (GAAP) and what GAAP consists of;
  - The legal requirement that permits certain public sector public benefit entities and not-for-profit public benefit entities that are not “specified not-for-profit entities” to prepare financial reports in accordance with “non-GAAP standards”<sup>2</sup> issued by the XRB and what non-GAAP standards consist of;
  - The standards and other documents issued by the XRB and the NZASB, and the legal standing of those documents; and
  - The standards and other pronouncements that reporting entities are required to comply with, including the tiers and sets of standards that apply to particular reporting entities.
- 4 A separate Explanatory Guide (EG A2 *Overview of the Accounting Standard-Setting Process*) provides an overview of the process that the XRB Board expects the NZASB to follow in developing, or adopting, and issuing accounting standards.

### The Accounting Standards Framework

- 5 In April 2012, the Minister of Commerce approved the Accounting Standards Framework<sup>3</sup> submitted by the XRB Board. The Accounting Standards Framework (which was last updated in December 2025)<sup>4</sup> reflects the XRB Board’s decision to adopt a multi-standards approach in New Zealand.<sup>5</sup> The Accounting Standards Framework comprises different sets of accounting standards for for-profit entities and for public benefit entities (PBEs), together with a formalised tier structure. The tier structure is designed to better balance the relative costs and benefits of reporting by entities of different sizes.

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<sup>1</sup> Previous versions of EG A1 relate to previous versions of XRB A1 and apply to entities reporting for annual or interim reporting periods covered by those versions of XRB A1. They are available at <https://www.xrb.govt.nz/accounting-standards/archived-accounting-standards/general-standards-and-explanatory-guides-current/>

<sup>2</sup> Under the Financial Reporting Act 2013, a financial reporting standard issued by the XRB is a non-GAAP standard if it is stated in the standard to be a non-GAAP standard.

<sup>3</sup> The Accounting Standards Framework as approved by the Minister in April 2012 is available on the XRB website: <http://www.xrb.govt.nz/why-report/history/>

<sup>4</sup> The updated version of the Accounting Standards Framework is available on the XRB website: <http://www.xrb.govt.nz/why-report/accounting-standards-framework/>

<sup>5</sup> The decision to adopt a multi-standards approach followed an extensive consultation and deliberation process undertaken by the XRB Board and its predecessor, the Accounting Standards Review Board (ASRB). Further information about this process and the rationale for the multi-standards approach is available on the XRB website: <http://www.xrb.govt.nz/why-report/history/>

## EG A1 Guide to Application of the Accounting Standards Framework

**2. Roles of the XRB Board and the NZASB**

- 6 The XRB is an independent Crown Entity with continued existence under section 11 of the Financial Reporting Act 2013 and is subject to the provisions of the Crown Entities Act 2004. For the purposes of this Explanatory Guide, the organisation as a whole is referred to as the XRB while the Board itself is referred to as the XRB Board.
- 7 The functions of the XRB are specified in the Financial Reporting Act 2013. In relation to accounting standards they comprise:
- Developing and issuing accounting standards and amendments to accounting standards for application by entities that have a statutory obligation (or that optionally elect under an enactment) to prepare financial statements in accordance with generally accepted accounting practice (GAAP) or non-GAAP standards issued by the XRB (section 12(a));
  - Developing and issuing authoritative notices for the purposes of the definition of GAAP (section 12(c));
  - Developing and implementing strategies for the issue of accounting standards in order to provide a framework for the XRB's overall direction in the setting of standards (section 12(d)), including establishing a system for tiers of financial reporting that imposes different financial reporting requirements in respect of different classes of relevant entities in order to ensure that the requirements that apply in respect of those entities are appropriate (section 29);
  - Liaising with international or national organisations that have responsibility for accounting standard setting (section 12(e)); and
  - Consulting with persons or organisations (or their representatives) who, in the opinion of the XRB Board, would be affected by the issue or amendment of an accounting standard or authoritative notice (section 22).
- 8 Although all the functions and responsibilities of the XRB ultimately rest with the XRB Board, the XRB Board has delegated the responsibility for accounting standard setting to a committee (generally referred to as a sub-board), the NZASB. The NZASB has been established in accordance with the powers vested in the XRB Board under Schedule 5 of the Crown Entities Act 2004.
- 9 Accordingly, the role of the XRB Board under these arrangements is three-fold: organisational governance; financial reporting strategy setting; and appointing and monitoring the performance of the NZASB. The financial reporting strategy setting function (required by section 12(d) of the Financial Reporting Act 2013) includes the establishment (and, if necessary, the revision) of the Accounting Standards Framework.
- 10 The NZASB is responsible for developing and issuing accounting standards and authoritative notices. In doing so the NZASB must:
- Operate within the Accounting Standards Framework established by the XRB Board;
  - Liaise with the Australian Accounting Standards Board (AASB) with the objective of harmonising accounting standards in Australia and New Zealand for for-profit entities; and
  - Ensure an appropriate consultation process (due process) is followed – see EG A2 for an explanation of these requirements.
- 11 The NZASB operates under delegated authority from the XRB Board.

### 3. Legislative Framework

#### Requirement to Prepare

- 12 Various pieces of legislation require entities to prepare GPFR that comply with XRB standards. These “reporting entities”<sup>6</sup> are required to comply with XRB standards that are GAAP or non-GAAP standards issued by the XRB.
- 13 Entities required to comply with GAAP include:
- “FMC reporting entities”<sup>7</sup> as defined by the Financial Markets Conduct Act 2013;
  - Large companies<sup>8,9</sup> (with total assets of over \$66 million or total revenue of over \$33 million in the two preceding reporting periods) under the Companies Act 1993;
  - Large overseas companies,<sup>9</sup> large subsidiaries of overseas companies and large New Zealand businesses of large overseas companies (with total assets of over \$22 million or total revenue of over \$11 million in the two preceding reporting periods) under the Companies Act 1993;
  - Local authorities and council controlled organisations under the Local Government Act 2002;
  - State sector bodies under the Public Finance Act 1989 and the Crown Entities Act 2004;
  - Other public entities under the Public Audit Act 2001;
  - Registered charitable entities that are specified not-for-profit entities (as defined by the Financial Reporting Act 2013) under the Charities Act 2005;<sup>10</sup>
  - Large registered friendly societies, large registered industrial and provident societies, large partnerships and large limited partnerships (with total assets of over \$66 million or total revenue of over \$33 million in the two preceding reporting periods) under their respective governing legislation; and
  - Incorporated societies that are specified not-for-profit entities (as defined by the Financial Reporting Act 2013) under the Incorporated Societies Act 2022.
- 14 Most small and medium sized for-profit entities have no obligation to prepare financial statements that comply with GAAP. However, entities may optionally elect under an enactment to prepare financial reports in accordance with GAAP, for example, a company that has fewer than 10 shareholders.
- 15 Certain public sector PBEs and not-for-profit PBEs that do not meet the criteria to be specified not-for-profit entities are permitted by legislation to prepare financial statements in accordance with non-GAAP standards issued by the XRB (i.e. cash-based standards). Specified not-for-profit entities are required to prepare financial statements that comply with GAAP.

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<sup>6</sup> Reporting entity is defined in the Financial Reporting Act 2013 and means an entity whose financial statements or, group financial statements, reports, or other information are required by any enactment to comply, or be prepared in accordance, with generally accepted accounting practice or non-GAAP standards.

<sup>7</sup> FMC reporting entity is defined in the Financial Markets Conduct Act 2013 and includes:

- an issuer of a regulated product;
- a person who holds a licence to provide certain market services under Part 6 of the Act;
- a licensed supervisor;
- a listed issuer;
- an operator of a licensed market;
- a recipient of money from a conduit issuer;
- a registered bank;
- a licensed insurer;
- a credit union;
- a building society; and
- an FMC reporting entity under clause 27A of Schedule 1.

<sup>8</sup> Companies, including not-for-profit companies that are not registered charitable entities under the Charities Act 2005.

<sup>9</sup> Except for large companies or large overseas companies if they are a subsidiary of another New Zealand entity that is required to prepare group financial statements.

<sup>10</sup> The reporting provisions relating to registered charities came into force on 1 April 2015.

## EG A1 Guide to Application of the Accounting Standards Framework

**Definition of GAAP**

- 16 GAAP is defined in section 8 of the Financial Reporting Act 2013 and means compliance with:
- (a) Applicable accounting standards; and
  - (b) Authoritative notices.
- 17 In accordance with this definition, accounting standards issued by the XRB Board or the NZASB are the primary indicators of GAAP in New Zealand. They set out the recognition, measurement, presentation and disclosure requirements for transactions and events that are important in the preparation of GPFR, including those that may arise in specific industries.

**Definition of “Non-GAAP Standard”**

- 18 Some enactments permit certain entities that would otherwise be required to prepare financial statements in accordance with GAAP to apply a non-GAAP standard issued by the XRB. In order to do so, an entity must not be a specified not-for-profit entity. Standard XRB A2 *Meaning of Specified Statutory Size Thresholds* defines a specified not-for-profit entity as an entity whose total operating payments for each of the two preceding accounting periods are \$140,000 or more. For the purpose of applying the legislative size threshold, where an entity has controlled entities,<sup>11</sup> total operating payments means the combined operating payments of the entity and all its controlled entities.
- 19 Non-GAAP standard is defined in section 5 of the Financial Reporting Act 2013 and means a financial reporting standard issued by the XRB that is stated in the standard to be a non-GAAP standard. All the non-GAAP standards issued by the XRB are cash-based standards.
- 20 Legislation that allows entities to apply non-GAAP standards issued by the XRB include:
- Certain public sector entities under the Burial and Cremation Act 1964, the Maori Purposes Fund Act 1934–35, the Patriotic and Canteen Funds Act 1947, the Reserves Act 1977 and the Reserves and Other Lands Disposal Act 1995; and
  - Registered charitable entities, friendly societies and other entities under the Charities Act 2005, the Friendly Societies and Credit Unions Act 1982, the Agricultural and Pastoral Societies Act 1908, and the Incorporated Societies Act 2022.

**General Purpose Financial Reports**

- 21 GPFR comprise financial statements accompanied by:
- (a) Non-financial information, such as service performance information; and
  - (b) Explanatory material, including that required by legislation.
- 22 The objective of GPFR is to provide information to users for decision-making or accountability purposes where those users are generally unable to obtain the information they require. By definition therefore GPFR seeks to provide information to a range of general purpose users with different interests in that information. GAAP and non-GAAP standards issued by the XRB reflect this.<sup>12</sup>
- 23 By contrast where users have the power to specify the information to be included in financial reports, these financial reports are considered to be special purpose financial reports (SPFR). Users that can usually request SPFR include major suppliers of funds such as banks and financial institutions, government regulatory agencies such as Inland Revenue or Statistics New Zealand, and credit rating agencies. The standards issued by the XRB are not intended to apply to SPFR.

<sup>11</sup> The combined operating payments of the entity and all its controlled entities excludes any payments between the entity and the controlled entities and/or between the controlled entities.

<sup>12</sup> The objective of GPFR, the users of GPFR and the information needs of such users are discussed in detail in the New Zealand equivalent to the IASB *Conceptual Framework for Financial Reporting* issued in 2018 (2018 *NZ Conceptual Framework*) and the *Public Benefit Entities' Conceptual Framework* (PBE Conceptual Framework).



## EG A1 Guide to Application of the Accounting Standards Framework

**Types of Documents Issued by the XRB**

- 24 As outlined above, under section 12 of the Financial Reporting Act 2013, the XRB is responsible for issuing accounting standards (including non-GAAP standards) and authoritative notices.
- 25 Compliance with GAAP or non-GAAP standards issued by the XRB is a legal requirement for certain entities and XRB standards therefore have legal standing. Under section 25 of the Financial Reporting Act 2013, accounting standards and authoritative notices (including any amendments or revocations) issued under section 12 are classified as disallowable instruments for the purposes of the Legislation Act 2012.
- 26 However, not all the documents issued by the XRB have legal status. Between them, the XRB Board and the NZASB issue four types of documents:
- Accounting standards (including non-GAAP standards) and related interpretations which are issued under section 12(a) of the Financial Reporting Act 2013;
  - Documents or pronouncements, such as conceptual frameworks, that are issued as authoritative notices under section 12(c) of the Financial Reporting Act 2013;
  - Consultation documents, such as consultation papers and exposure drafts, that have no legal status; and
  - Explanatory documents (such as this Explanatory Guide) that have no legal status.
- Only the documents issued under sections 12(a) and 12(c) of the Financial Reporting Act 2013 have legal standing and form part of GAAP or non-GAAP standards.
- 27 While GAAP comprises applicable accounting standards and authoritative notices, the authoritative notices have a “lower” level of authority than accounting standards. For example, under the Financial Markets Conduct Act 2013, failure to comply with an authoritative notice does not subject an FMC reporting entity to pecuniary penalties.
- 28 The XRB Board considers it important that the legal status of each document issued by the XRB Board or the NZASB is clear. Accordingly, its policy is to indicate on the front page of each document the legal standing of that document. In addition, each non-GAAP standard issued by the XRB states that it is a non-GAAP standard.

## 4. Accounting Requirements to be Applied

- 29 There are multiple sets of accounting requirements that apply to New Zealand reporting entities preparing GPFR in accordance with GAAP or non-GAAP standards issued by the XRB for periods beginning on or after 1 January 2016. Establishing exactly which set of those accounting requirements is applicable to a particular reporting entity can be determined in two steps.

### Step 1: Determine Whether a For-profit Entity or a Public Benefit Entity (PBE)

- 30 The following are the different accounting requirements that apply under the Accounting Standards Framework: NZ IFRS, NZ IFRS RDR, PBE Standards, PBE Standards RDR, Tier 3 (PS) Standard, Tier 4 (PS) Standard, Tier 3 (NFP) Standard and Tier 4 (NFP) Standard. Exactly which of these accounting requirements a particular reporting entity must, or may, apply is specified in XRB A1.<sup>13</sup>
- 31 XRB A1 establishes two broad groups of accounting standards: those to be applied by for-profit entities and those to be applied by public benefit entities (PBEs). Having determined that it is required (or chooses) to prepare financial statements in accordance with XRB standards, an entity's next step is to determine whether it is a for-profit entity or a PBE.
- 32 The definitions of "for-profit entities", "public benefit entities (PBEs)", "public sector PBE" and "not-for-profit PBE" are specified in XRB A1. XRB A1 also contains integral guidance relating to the definitions of for-profit entities and public benefit entities in an Appendix.<sup>14</sup> XRB A1 defines:
- For-profit entities as reporting entities that are not public benefit entities;
  - Public benefit entities (PBEs) as reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders;
  - Public sector PBEs as PBEs that are public entities as defined in the Public Audit Act 2001, and all Offices of Parliament; and
  - Not-for-profit PBEs (NFP PBEs) as PBEs that are not public sector PBEs.
- 33 Although under the Accounting Standards Framework the term public benefit entities (PBEs) refers to both public sector PBEs and not-for-profit PBEs, a distinction has been made between these two categories of PBEs because XRB A1 specifies different accounting requirements for these two categories of PBEs in certain areas.

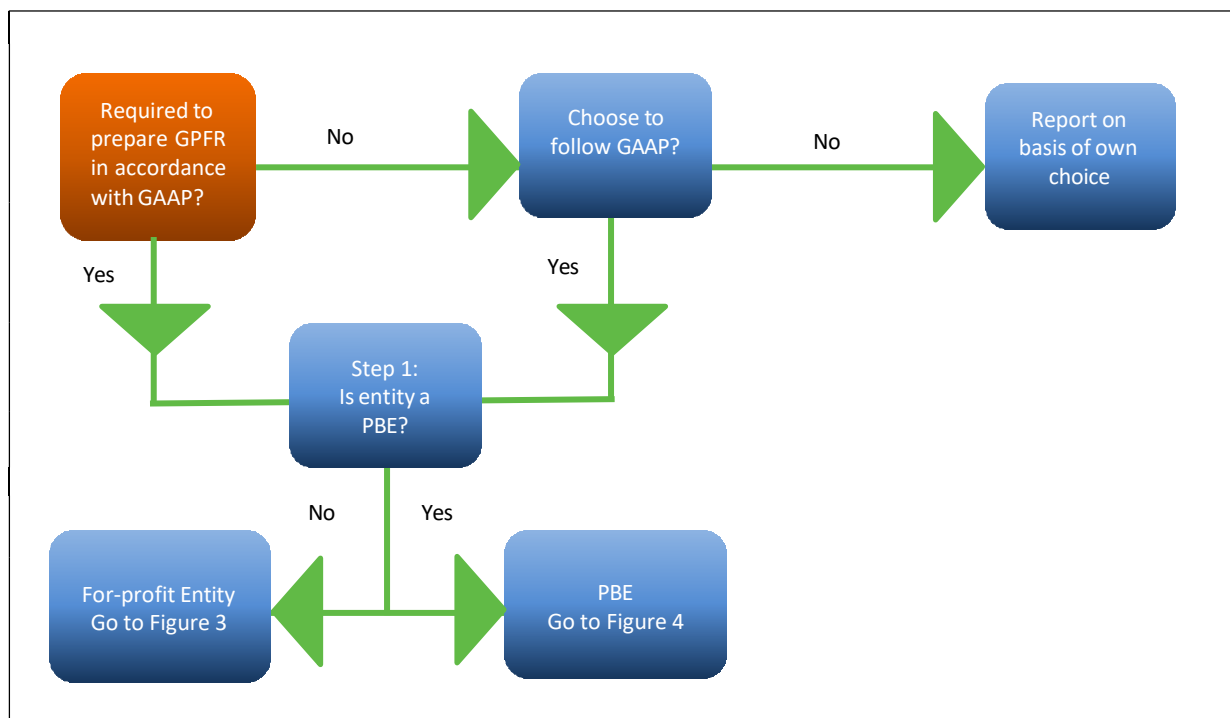
<sup>13</sup> Standard XRB A1 *Application of the Accounting Standards Framework* is available on the XRB website: <http://www.xrb.govt.nz/accounting-standards/for-profit-entities/> or <http://www.xrb.govt.nz/accounting-standards/not-for-profit/> or <http://www.xrb.govt.nz/accounting-standards/public-sector/>

<sup>14</sup> Appendix A *When is an Entity a Public Benefit Entity?* of XRB A1 was last updated in 2019.

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34 Step 1 is illustrated in Figure 1 below.

**Figure 1: Identify the Entity Type – Step 1**



## Step 2: Identify Applicable Accounting Requirements: For-profit Entities

35 Having determined whether it is a for-profit entity or a PBE, the second step is to determine which set of accounting requirements is applicable to the entity. The approach to identifying the applicable accounting requirements for a for-profit entity set out in XRB A1 is as follows.

### Tier Structure

36 XRB A1 contains a two-tier structure for the for-profit sector. The requirements that an entity applies depend on the tier that it reports under. The tiers, criteria for the tiers, and the requirements applying to each tier are summarised in Table 1.

**Table 1: For-profit Entity Tiers and Requirements**

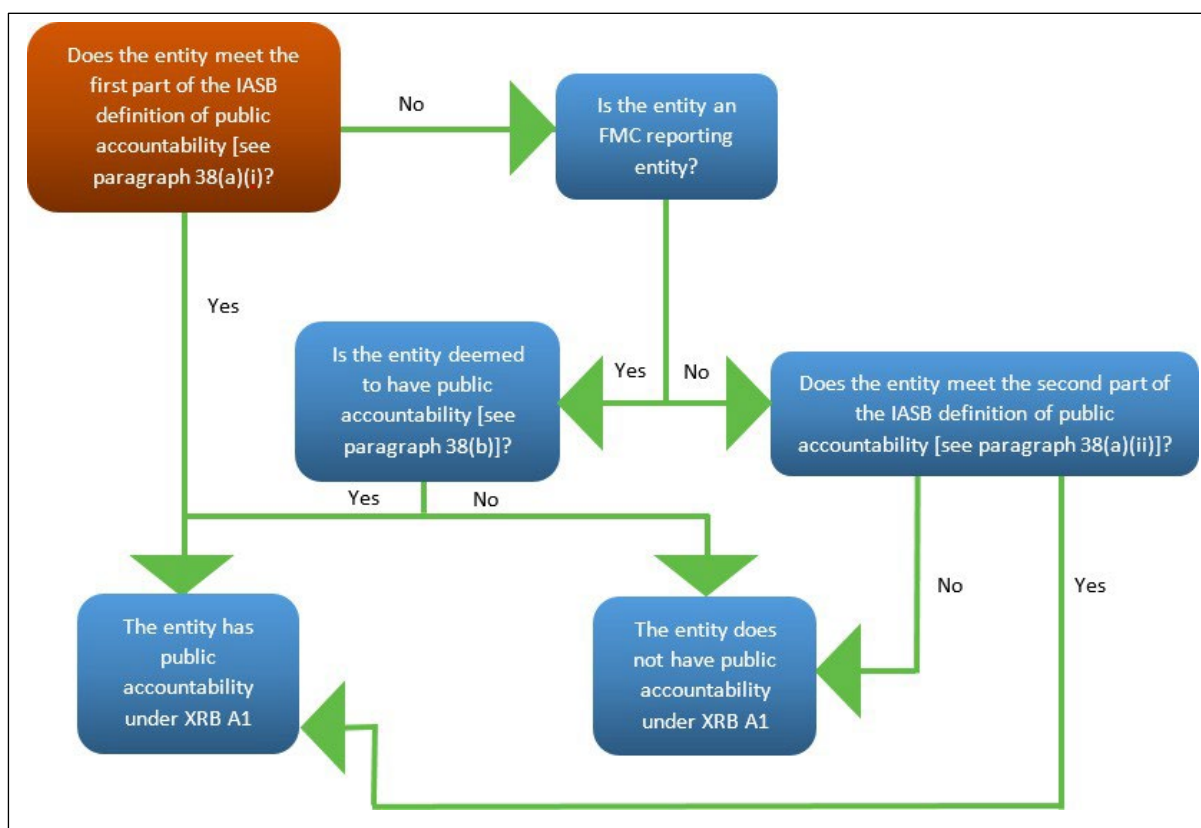
Tier	Tier Criteria	Standards Set
Tier 1	<ul style="list-style-type: none"> <li>Has public accountability (as defined); or</li> <li>Is a for-profit <b>public sector entity</b> that has total expenses &gt;\$33 million</li> </ul>	NZ IFRS
Tier 2	<ul style="list-style-type: none"> <li>Has no public accountability (as defined); and</li> <li>Is a for-profit <b>public sector entity</b> that has total expenses ≤\$33 million</li> </ul> <p><i>and elects to be in Tier 2.</i></p>	NZ IFRS RDR

37 The way the for-profit tier structure works under XRB A1 is that all entities are initially in Tier 1 as the default. However, if they meet the criteria to be in Tier 2, and elect to be in that tier, then they may report in accordance with the requirements for Tier 2.

## EG A1 Guide to Application of the Accounting Standards Framework

- 38 Two groups of for-profit entities must report in accordance with Tier 1 requirements: entities that have “public accountability”; and public sector for-profit entities that have total expenses greater than \$33 million. For the purpose of the tier criteria, public accountability has a particular technical meaning which is defined in XRB A1. In general, an entity has public accountability<sup>15</sup> if it:
- (a) Meets the International Accounting Standards Board (IASB) definition of public accountability, i.e.:
    - (i) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
    - (ii) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (for example, banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks often meet this second criterion); or
  - (b) Is deemed to have public accountability in New Zealand under XRB A1, with the following being so deemed: an FMC reporting entity or a class of FMC reporting entities that is considered to have a higher level of public accountability than other FMC reporting entities under the Financial Markets Conduct Act 2013 or by a notice issued by the Financial Markets Authority (FMA) under that Act.
- 39 However, XRB A1 also recognises that the FMA, under the Financial Markets Conduct Act 2013, has the ability to vary the level of public accountability of an FMC reporting entity. Therefore, an FMC reporting entity is not considered to have public accountability under the second part of the IASB definition (see paragraph 38(a)(ii)) unless it is deemed to have public accountability (see paragraph 38(b)). Figure 2 provides a decision tree to assist an entity identify whether it has public accountability.

**Figure 2: Identifying Public Accountability**



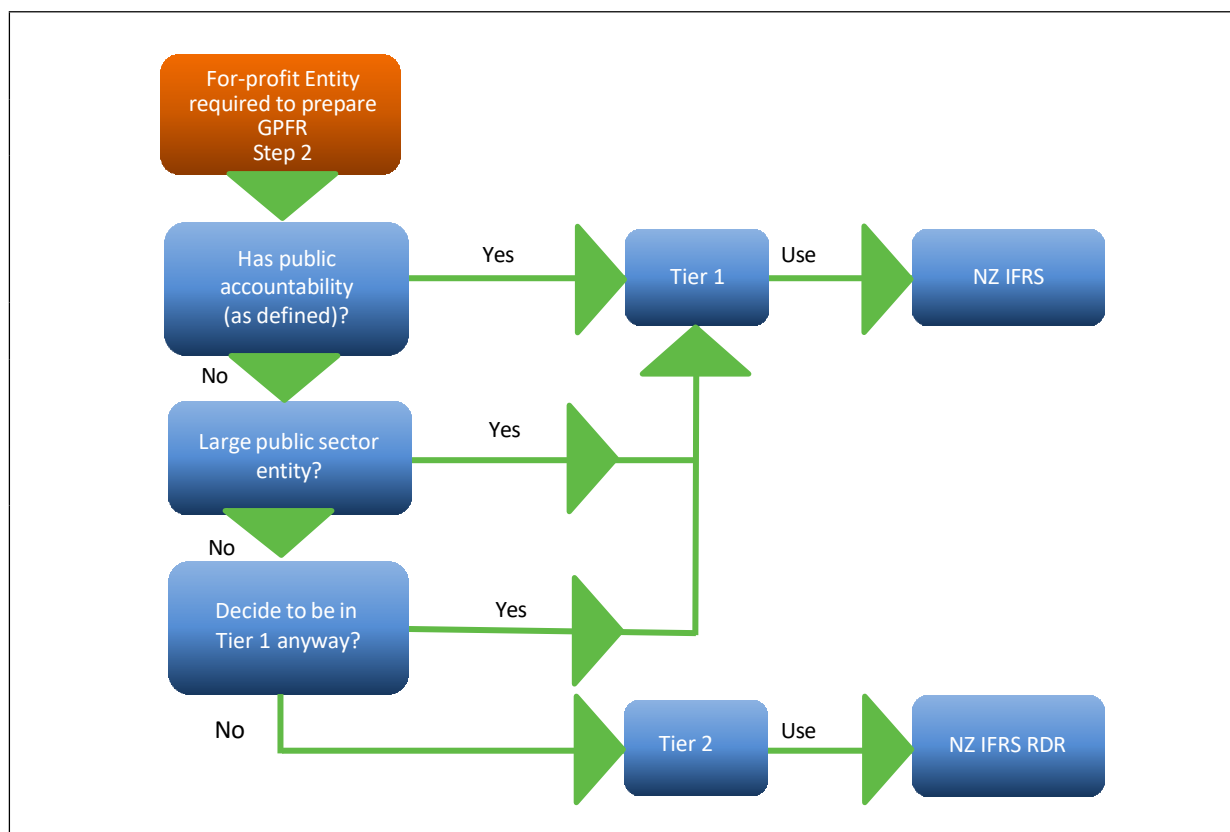
- 40 Any entity that does not meet the Tier 1 criteria may elect to be in Tier 2 although it need not do so: it can report in accordance with Tier 1 requirements if it so wishes. There are no additional criteria for Tier 2. This means any entity that is not required to be in Tier 1 may be in Tier 2, including large non-public sector

<sup>15</sup> XRB A1 *Application of the Accounting Standards Framework* defines public accountability.

## EG A1 Guide to Application of the Accounting Standards Framework

for-profit entities that do not have public accountability (as defined). Figure 3 provides a decision tree to assist in this tier selection process.

**Figure 3: Identify the Applicable Standards – Step 2 (For-profit Entities)**



### For-profit Requirements

- 41 The requirements to be applied by for-profit entities are the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). NZ IFRS is the set of standards and interpretations issued by the NZASB. It comprises New Zealand equivalents to:
- International Financial Reporting Standards;
  - International Accounting Standards;
  - IFRIC Interpretations; and
  - SIC Interpretations.

The NZ IFRS set of standards also includes a small number of (domestic) New Zealand Financial Reporting Standards (FRSs) and the 2018 *NZ Conceptual Framework*.<sup>16</sup>

- 42 NZ IFRS is substantively identical to the IFRS<sup>®</sup> Standards on which it is based and is generally harmonised with the Australian equivalent requirements. NZ IFRS follows the format of the pronouncements issued by the IASB and, since IFRS Standards were adopted in New Zealand, have the same effective dates as their corresponding IFRS Standards.

<sup>16</sup> The 2018 *NZ Conceptual Framework* (issued May 2018) is effective for annual periods beginning on or after 1 January 2020. From the point at which the 2018 *NZ Conceptual Framework* becomes effective, entities will refer to New Zealand Equivalent to the IASB *Conceptual Framework for Financial Reporting* (2010) (*NZ Framework*) in the limited circumstances that they are required to do so by the relevant NZ IFRS.

## EG A1 Guide to Application of the Accounting Standards Framework

NZ IFRS (Tier 1)

- 43 The requirements to be applied by Tier 1 for-profit entities are the requirements in NZ IFRS, excluding any requirements that apply only to Tier 2 entities (see paragraphs 47–50 below). In adapting an IFRS Standard for issue as a New Zealand pronouncement for Tier 1 for-profit entities, the NZASB has adopted the following protocols:
- (a) Recognition and measurement requirements in an IFRS Standard cannot be amended;
  - (b) Disclosure requirements cannot be reduced; and
  - (c) Additional disclosure requirements can be added (these are included in a separate standard: FRS-44 *New Zealand Additional Disclosures*).
- 44 The topics addressed in the 2018 *NZ Conceptual Framework* are:
- (a) Status and purpose of the 2018 *NZ Conceptual Framework*;
  - (b) Chapter 1—The Objective of General Purpose Financial Reporting;
  - (c) Chapter 2—Qualitative Characteristics of Useful Financial Information;
  - (d) Chapter 3—Financial Statements and the Reporting Entity;
  - (e) Chapter 4—The Elements of Financial Statements;
  - (f) Chapter 5—Recognition and Derecognition;
  - (g) Chapter 6—Measurement;
  - (h) Chapter 7—Presentation and Disclosure; and
  - (i) Chapter 8—Concepts of Capital and Capital Maintenance.
- 45 In the absence of an accounting standard, the 2018 *NZ Conceptual Framework* assists the NZASB in developing a New Zealand FRS or in its role in commenting on the development of an IFRS Standard by the IASB. The 2018 *NZ Conceptual Framework* also assists preparers of GPFR. For example, it may assist preparers in developing consistent accounting policies when dealing with topics that have yet to form the subject of an NZ IFRS or when a standard allows a choice of accounting policy.
- 46 Where a for-profit entity prepares its financial report in compliance with NZ IFRS, the entity will be able to assert compliance with IFRS.

NZ IFRS RDR (Tier 2)

- 47 The requirements to be applied by Tier 2 for-profit entities are NZ IFRS Reduced Disclosure Regime (RDR concessions) (NZ IFRS RDR). NZ IFRS RDR has the same recognition and measurement requirements as NZ IFRS but with significantly reduced disclosure requirements.
- 48 Tier 2 entities may apply whichever of the disclosure concessions they wish – either some or all.
- 49 The RDR concessions are incorporated in NZ IFRS by way of an asterisk (\*) or by an additional RDR paragraph. Accordingly, NZ IFRS and NZ IFRS RDR form one physical set of standards.
- 50 For-profit entities applying NZ IFRS RDR are not able to assert compliance with IFRS.

**Moving between Tiers**

- 51 It is expected that for-profit entities will move between the two tiers over time either as a matter of choice, as their circumstances change or if they meet the criteria for Tier 1. XRB A1 therefore sets out the timing and other requirements for moving between tiers.
- 52 An entity moving from Tier 1 to Tier 2 because it no longer meets the public accountability criteria must continue to apply the Tier 1 accounting requirements in the period in which it ceases to meet the public accountability criteria. A for-profit public sector entity moving from Tier 1 to Tier 2 because it no longer meets the size criterion (i.e. it is no longer large) may do so in the annual or interim reporting period in which it is no longer large, and elects to do so.

## EG A1 Guide to Application of the Accounting Standards Framework

- 53 An entity moving from Tier 2 to Tier 1 as a result of the entity meeting the public accountability criteria must apply the Tier 1 accounting requirements in the annual or interim reporting period that this occurs. A for-profit public sector entity moving from Tier 2 to Tier 1 because it meets the size criterion (i.e. it becomes large) may continue to apply Tier 2 accounting requirements in the period in which it becomes large, unless it was applying Tier 1 accounting requirements in the period before it became large. Under those circumstances the entity continues to apply Tier 1 accounting requirements.
- 54 Entities moving from Tier 2 to Tier 1 must apply NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*.
- 55 A move between Tier 2 and Tier 1 is unlikely to result in changes to an entity's recognition or measurement accounting policies as the recognition and measurement requirements in NZ IFRS and NZ IFRS RDR are identical.

**Step 2: Identify Applicable Accounting Requirements: PBEs**

- 56 The approach to identifying the applicable accounting requirements for a PBE set out in XRB A1 is as follows.

**Tier Structure**

- 57 XRB A1 contains a four-tier structure for PBEs. The requirements an entity applies depend on the tier that it reports under. The tiers, criteria for the tiers, and the requirements applying to each PBE tier are summarised in Table 2 below.

**Table 2: Public Benefit Entity Tiers and Requirements**

<b>Tier</b>	<b>Tier Criteria</b>	<b>Standards Set</b>
Tier 1	<ul style="list-style-type: none"> <li>• Has public accountability (as defined); or</li> <li>• Has total expenses (including grants) &gt; \$33 million</li> </ul>	PBE Standards
Tier 2	<ul style="list-style-type: none"> <li>• Has no public accountability (as defined); and</li> <li>• Has total expenses (including grants) ≤ \$33 million <i>and elects to be in Tier 2.</i></li> </ul>	PBE Standards (RDR)
Tier 3	<ul style="list-style-type: none"> <li>• Has no public accountability (as defined); and</li> <li>• Has expenses ≤ \$5 million <i>and elects to be in Tier 3.</i></li> </ul>	Tier 3 (PS) Standard or Tier 3 (NFP) Standard
Tier 4	<ul style="list-style-type: none"> <li>• Has no public accountability (as defined); and</li> <li>• Has total operating payments of less than \$140,000 in each of the previous two reporting periods (i.e. not a specified not-for-profit entity); and</li> <li>• Is permitted by an enactment to comply with a non-GAAP Standard <i>and elects to be in Tier 4.</i></li> </ul>	Tier 4 (PS) Standard or Tier 4 (NFP) Standard

- 58 The way the PBE tier structure works under XRB A1 is that all entities are initially in Tier 1 as the default. However, if they meet the criteria to be in another tier, and elect to be in that other tier, then they may report in accordance with the requirements of the lower tier.
- 59 Two groups of PBEs must report in accordance with Tier 1 requirements: entities that have public accountability; and entities that have total expenses greater than \$33 million.

## EG A1 Guide to Application of the Accounting Standards Framework

- 60 For the purpose of the tier criteria, public accountability has a particular technical meaning which is defined in XRB A1. The definition, is the same as that used for the for-profit tier structure. In general, an entity has public accountability if it:
- (a) Meets the IASB definition of public accountability, i.e.:
    - (i) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
    - (ii) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (for example, banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks often meet this second criterion); and
  - (b) Is deemed to have public accountability in New Zealand under XRB A1, with the following being so deemed: an FMC reporting entity or a class of FMC reporting entities that is considered to have a higher level of public accountability than other FMC reporting entities under the Financial Markets Conduct Act 2013 or by a notice issued by the FMA under that Act.
- 61 However, XRB A1 also recognises that the FMA, under the Financial Markets Conduct Act 2013, has the ability to vary the level of public accountability of an FMC reporting entity. Therefore, an FMC reporting entity is not considered to have public accountability under the second part of the IASB definition (see paragraph 60(a)(ii)) unless it is deemed to have public accountability (see paragraph 60(b)). Figure 2 provides a decision tree to assist an entity identify whether it has public accountability.
- 62 It is important to note that the term public accountability is used in the tier framework in a particular technical way. This technical meaning is quite different from the way in which the term “publicly accountable” is normally used in the PBE context and in which it was used prior to 2011 in the Accounting Standards Framework.
- 63 One element of the Tier 1 public accountability test is where entities hold assets in a fiduciary capacity for a broad group of outsiders as one of their primary businesses. Applying this test in a PBE context will require the application of judgement. In doing so it is important to consider the three aspects of the test: the assets must be held in a fiduciary capacity; they must be held for a broad group of persons or organisations that are external to the reporting entity (and who are not involved in its management); and the assets must be held as part of the entity’s primary business. An example of a situation where these three aspects would typically be met is life insurance or superannuation schemes.
- 64 Some PBEs hold assets in a fiduciary capacity for a broad group of outsiders but do so in a way that is incidental to their primary business. In the public sector context, this is typically the case for central government entities that hold and/or manage trust money under the Public Finance Act 1989 (for example the Department of Corrections holds money for inmates). In the majority of cases the holding or management of money is not the entity’s primary business (i.e. its primary function) and therefore would not result in the entity meeting the public accountability test.
- 65 In the not-for-profit PBE context, this is typically the case where an entity that holds and/or manages trust money entrusted to it by a client, customer or member who is not involved in the management of the entity (for example, welfare benefits held on behalf of beneficiaries as part of the entity providing welfare services to the beneficiaries). In the majority of cases the holding or management of money is not the entity’s primary business (i.e. its primary function) and therefore would not result in the entity meeting the public accountability test.
- 66 Any entity that does not meet the Tier 1 criteria may elect to be in a lower tier (provided it meets the criteria for the lower tier) although it need not do so; it can report in accordance with Tier 1 requirements (the requirements of PBE Standards in full) if it so wishes. In fact an entity can elect to be in any of the four tiers provided that it meets the criteria for the tier under which it is electing to report. However, a PBE can only report under Tier 4 if it is not a specified not-for-profit entity (that is, its total operating payments<sup>17</sup> (excluding capital payments) for each of the two preceding accounting periods are \$140,000 or less) and is permitted by its governing legislation to report in accordance with non-GAAP standards issued by the XRB.
- 67 For the purposes of the size criterion in the PBE tier structure, “total expenses” comprises all expenses reported by the entity including any losses incurred, any grants made by the entity, and any net expense

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<sup>17</sup> For this purpose, total operating payments means the combined operating payments of the entity and all its controlled entities.

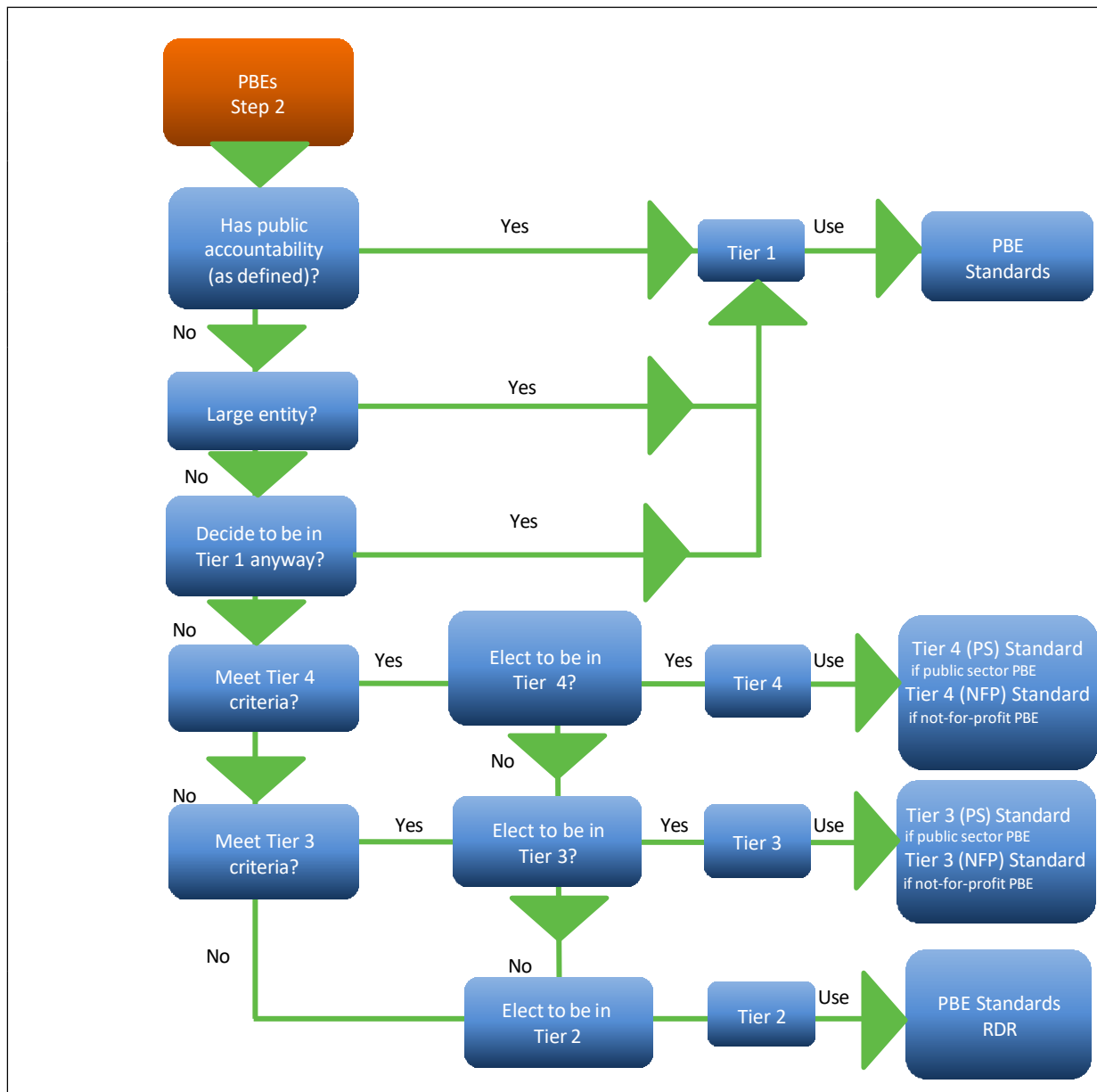


EG A1 Guide to Application of the Accounting Standards Framework

resulting from any offset of revenue and expenses allowed by a PBE Standard. However, it does not include an expense included in “other comprehensive revenue or expense” where this is reported (Tier 1 and Tier 2).

68 Figure 4 provides a decision tree to assist PBEs in the tier selection process.

**Figure 4: Identify the Applicable Accounting Requirements – Step 2 (PBEs)**



**Accounting Requirements for PBEs**

PBE Standards (Tier 1)

- 69 The requirements to be applied by Tier 1 PBEs are the PBE Standards, excluding any RDR concessions.
- 70 The bulk of the PBE Standards are based substantially on International Public Sector Accounting Standards (IPSAS) issued by the International Public Sector Accounting Standards Board (IPSASB). IPSAS are, in turn, based substantially on IFRS Standards.
- 71 However, PBE Standards also include certain standards based on NZ IFRS and some domestic FRSS (for example, to cover gaps in accounting requirements not covered by IPSAS). All the standards have the

## EG A1 Guide to Application of the Accounting Standards Framework

prefix “PBE” to identify them. The PBE Standards therefore comprise a combination of PBE IPSAS, PBE IFRS, PBE IAS and PBE FRS.

- 72 Accompanying the PBE Standards is the *Public Benefit Entities’ Conceptual Framework* (PBE Conceptual Framework). The PBE Conceptual Framework establishes the concepts that underpin general purpose financial reporting by public benefit entities. The PBE Conceptual Framework sets out:
- (a) The role and authority of the PBE Conceptual Framework;
  - (b) The objectives and users of GPFR;
  - (c) The qualitative characteristics of useful information;
  - (d) The key characteristic of a reporting entity;
  - (e) The elements in GPFR;
  - (f) The criteria for recognition of an element;
  - (g) The concepts for selection of measurement bases; and
  - (h) The concepts applicable to presentation of information in GPFR.
- 73 In the absence of an accounting standard, the PBE Conceptual Framework assists the NZASB in developing PBE Standards and in commenting on the development of IPSAS by the IPSASB. The PBE Conceptual Framework also assists preparers of GPFR. For example, it may assist preparers in developing consistent accounting policies when dealing with topics that have yet to form the subject of a PBE Standard or when a standard allows a choice of accounting policy.

*PBE Standards RDR (Tier 2)*

- 74 The requirements to be applied by a Tier 2 PBE are PBE Standards Reduced Disclosure Regime (PBE Standards RDR). PBE Standards RDR have the same recognition and measurement requirements as PBE Standards. However, they contain reduced disclosures which are substantially aligned with the reduced disclosures in NZ IFRS RDR.
- 75 Tier 2 entities may apply whichever of the disclosure concessions they wish – either some or all.
- 76 The RDR concessions are incorporated in the PBE Standards by way of an asterisk (\*) or by an additional RDR paragraph. Accordingly, PBE Standards and PBE Standards RDR form one physical set of standards.

*Tier 3 Standard*

- 77 Separate accounting requirements are to be applied by Tier 3 public sector PBEs and Tier 3 not-for-profit PBEs.
- 78 In the public sector, this is the Tier 3 (PS) Standard and in the not-for profit sector, this is the Tier 3 (NFP) Standard.
- 79 Although based on Tier 1 and Tier 2 PBE Standards, the requirements in Tier 3 (PS) Standard and the Tier 3 (NFP) Standard are substantially reduced and simplified in nature. The Tier 3 requirements require the preparation of a “Performance Report” covering both financial and non-financial information.

*Tier 4 Standard*

- 80 Separate accounting requirements are to be applied by Tier 4 public sector PBEs and Tier 4 not-for-profit PBEs.
- 81 In the public sector, this is the Tier 4 (PS) Standard and in the not-for profit sector, this is the Tier 4 (NFP) Standard.
- 82 The Tier 4 requirements also require the preparation of a Performance Report covering both financial and non-financial information, but with the financial information reported using the cash basis of accounting.

## EG A1 Guide to Application of the Accounting Standards Framework

**Moving between Tiers**

- 83 It is expected that PBEs will move between tiers over time either by choice, or as their circumstances change and they no longer meet the criteria for the tier under which they report. XRB A1 therefore sets out the timing and other criteria for moving between tiers:
- An entity that meets the criteria to report under a lower tier is generally permitted to move to the lower tier in the annual or interim reporting period in which it meets the lower tier's criteria, and elects to report under the lower tier. However, an entity that no longer meets the public accountability criteria must continue to apply Tier 1 accounting requirements in the period in which it loses public accountability;
  - An entity moving from a lower tier to a higher tier is generally permitted one or two annual reporting periods before it is required to apply the higher tier's accounting standards. One exception is where an entity fails to meet the lower tier's criteria because it now has public accountability (as defined). In that instance, the entity must apply the Tier 1 accounting requirements in the annual or interim reporting period in which it meets the public accountability criteria; and
  - A Tier 2 PBE that becomes large may continue to report under Tier 2 accounting requirements in the annual and interim reporting periods in which it becomes large unless it was reporting under Tier 1 requirements in the annual period immediately before it became large.
- 84 XRB A1 also sets out the first-time adoption requirements that must be applied when an entity first moves into a particular tier: a Tier 3 or Tier 4 PBE that subsequently applies Tier 1 or Tier 2 PBE Accounting Requirements is required to apply PBE FRS 47 *First-time Adoption of PBE Standards*.

## EG A1 Guide to Application of the Accounting Standards Framework

**History of Amendments**

EG A1 *Guide to Application of the Accounting Standards Framework* was issued in April 2016.

This table lists the pronouncements/board decisions establishing and substantially amending EG A1. The table is based on amendments issued as at 31 December 2025.

<b>Pronouncements/ [Board decisions]</b>	<b>Date issued</b>	<b>Early operative date</b>	<b>Mandatory date (annual financial statements ... on or after ...)</b>
Editorial Corrections: <i>Financial Reporting (Inflation Adjustments) Regulations 2021</i> <sup>18</sup>	Dec 2021	–	–
Updated PBE Tier Sizes	Feb 2024	–	28 Mar 2024
2025 Amendments to XRB A1 <i>Application of the Accounting Standards Framework</i>	Nov 2025		1 Jan 2027

<b>Table of Amended Paragraphs in EG A1</b>		
<b>Paragraph affected</b>	<b>How affected</b>	<b>By ... [date]</b>
Paragraph 13	Amended	Editorial Corrections: <i>Financial Reporting (Inflation Adjustments) Regulations 2021</i> [Dec 2021]
Paragraph 36	Amended	2025 Amendments to XRB A1 <i>Application of the Accounting Standards Framework</i> [Nov 2025]
Paragraph 38	Amended	2025 Amendments to XRB A1 <i>Application of the Accounting Standards Framework</i> [Nov 2025]
Paragraph 57	Amended	Editorial Corrections: <i>Financial Reporting (Inflation Adjustments) Regulations 2021</i> [Dec 2021]
Paragraph 57	Amended	Updated PBE Tier Sizes [Feb 2024]
Paragraph 59	Amended	Updated PBE Tier Sizes [Feb 2024]
Paragraph 60	Amended	2025 Amendments to XRB A1 <i>Application of the Accounting Standards Framework</i> [Nov 2025]
Paragraph 66	Amended	Editorial Corrections: <i>Financial Reporting (Inflation Adjustments) Regulations 2021</i> [Dec 2021]

<sup>18</sup> The corrections reflect changes to statutory size thresholds set out in the *Financial Reporting (Inflation Adjustments) Regulations 2021*, which were issued in October 2021 and came into force on 1 January 2022.



Friday, 29 August 2025

Wendy Venter FCA  
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/2025-amendments-to-xrb-a1/>

Dear Wendy

**Exposure Draft 2025-1: 2025 Amendments to XRB A1 Application of the Accounting Standards Framework**

Chartered Accountants Australia and New Zealand (CA ANZ) appreciates the opportunity to comment on the External Reporting Board's (XRB) proposed improvements to XRB A1 for all for-profit and public benefit entities (the ED). We make this submission on behalf of our members and in the public interest.

We support the proposed amendments to the definition of "public accountability" which we agree will provide important and necessary clarifications to these requirements. They will make the concept easier and more appropriate to apply in the New Zealand context, especially where brokers and dealers are involved, while still retaining alignment with the latest revised IASB definition of this term.

We also support increasing the Tier 1 size threshold for for-profit public sector entities from \$30 million to \$33 million total expenses to align with the Tier 1 size threshold for public benefit entities (PBEs). Restoring consistency across sectors will make the Accounting Standards Framework simpler and therefore easier to apply. In addition, inflation results in increased total expenses without an increase in scale, and so inflationary adjustments are important to ensure entities only transition from Tier 2 to Tier 1 when they have become larger or more complex in real terms.

We agree that the proposed clarifications to terminology in the PBE Tier 4 criteria and 'moving between tiers' provisions do make it clearer when an entity is able to apply the Tier 4 standard. However, we suggest that paragraphs 70 and 71 be combined to further streamline the requirements given their similar repetitive nature.

The Appendix 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](mailto:Zowie.Pateman@charteredaccountantsanz.com)

Sincerely

**Peter Vial FCA**

New Zealand Country Head

**Amir Ghandar FCA**

Reporting and Assurance Leader

# Appendix

## 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.



**Platform Charitable Trust**

Salmond House  
57 Vivian Street  
Te Aro  
Wellington, 6011

Monday 18 August 2025

External Report Board

Submitted via email to: [accounting@xrb.govt.nz](mailto:accounting@xrb.govt.nz)

[admin@platform.org.nz](mailto:admin@platform.org.nz)

[www.platform.org.nz](http://www.platform.org.nz)

Tēnā koutou, External Reporting Board

### **Submission on 2025 Amendments to XRB A1 Application of the Accounting Standards Framework**

Thank you for the opportunity to submit on the consultation about the 2025 Amendments to XRB A1 Application of the Accounting Standards Framework.

#### **Introduction**

This submission is presented by Platform Trust the national peak body representing and advocating for community and non-government organisations (NGOs) or not for profit entities throughout Aotearoa New Zealand that provide vital mental health and addiction services and support. Our 94 member organisations and 119 non-member organisations comprise a diverse range of charitable or not for profit entities, including community-based organisations, service providers, and advocacy groups dedicated to improving the wellbeing of individuals and communities affected by mental health challenges and addiction. These member organisations and not-for-profit entities are represented across all the across Tier 1 through to Tier 4 with a significant number being in tiers 3 and 4 subject to reporting and assurance of services performance information requirement for tier 1 and 2 not-for-profit entities.

Platform welcomes the opportunity to provide feedback on the External Review Board's consultation document the 2025 Amendments to XRB A1 *Application of the Accounting Standards Framework*. Below is our response to questions on the proposed 2025 Amendments to XRB A1 Application of the Accounting Standards Framework and comments as necessary.

1. Do you agree with the proposed amendments to XRB A1 that:

a. Amend the definition of public accountability?

Yes, we agree with the proposal to amend the definition of public accountability.



b. Increase the Tier 1 size threshold for for-profit public sector entities from \$30 million to \$33 million of expenses?

Yes, we agree with the proposal to increase the Tier 1 size threshold for for-profit sector entities from \$30 million to \$33 million of expenses.

c. Clarify when the Tier 4 criteria are met?

Yes, we agree with the proposal to clarify when the Tier 4 criteria are met.

2. Do you have any comments or concerns with the costs involved in adopting the proposed amendments?

The consultation document does not provide indicative costs involved in adopting the amendment. We hope the costs will be minimal if any.

3. Do you have any other feedback on the proposed amendments?

We do not have other feedback on the proposed amendments.

### **Conclusion**

Our member organisations, like many charities, often operate with limited resources, relying on a combination of government funding, philanthropic grants, community fundraising and donations. We hope the proposals in the 2025 Amendments to XRB A1 Application of the Accounting Standards Framework will provide clarity and simplify application of the framework.

Ngā mihi,



Memo Musa

**Chief Executive**

## Who are we?

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Platform is a membership organisation and peak body representing the mental health and addiction NGO and community sector. Platform actively collaborates with a network of 6 Regional Navigate Groups covering mental health and addictions services in the community. Currently 94 NGOs are members of Platform that provide support to tāngata whai ora (people seeking wellness) including Māori and Pasifika providers, and whānau and peer-led services.

Collectively across 2023/24, approximately 73,000<sup>1</sup> people accessed mental health and addiction NGO services, making up approximately 42% of all people accessing specialist support for their mental health or addiction needs in Aotearoa. NGO and community providers also work alongside primary care teams to support over approximately 92,250<sup>2</sup> people who used Access and Choice programme, for mild to moderate mental health needs.

There is a large and diverse workforce across the broader mental health and addiction NGO and community sector with a range of staff working across different occupational groups which in 2022 consisted of about 5,820 staff fulltime equivalents<sup>3</sup>.

**END**

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<sup>1</sup> Te Whatu Ora|Health New Zealand PRIMHD extract dated 27 November 2024, analysed by Te Pou.

<sup>2</sup> Te Hiringa Mahara | Mental Health and Wellbeing Commission. (2022). *Access and Choice Programme: Report on the first three years | Te Hōtaka mō Ngā Whai Wāhitanga me Ngā Kōwhiringa: He purongo mō ngā tau tuatahi e toru*. Wellington: Te Hiringa Mahara.

<sup>3</sup> Te Pou. (2023). *Mental health and addiction workforce: 2022 primary, community, and secondary healthcare settings*. Auckland: Te Pou.

Memorandum

**To:** NZASB Members

**Meeting date:** 9 October 2025

**Subject:** *Exploration and Evaluation of Mineral Resources and Stripping Costs in the Production Phase of a Surface Mine*

**Date:** 25 September 2025

**Prepared by:** Tereza Bublikova

**Through:** Nimash Bhikha, Michelle Lombaard

Action Required  For Information Purposes Only

**COVER SHEET**

**Project overview**

<b>Project purpose</b>	To develop guidance to account for: <ul style="list-style-type: none"> <li>• The exploration for and evaluation of mineral resources; and</li> <li>• The benefits that may arise from the waste removal activity of a surface mine (“stripping” activity)</li> </ul> using recent IPSASB pronouncements as a starting point.
<b>Cost/benefit considerations</b>	Please refer to the relevant section of this memo.
<b>Project priority</b>	<b>Low</b> The pronouncements are likely to have limited applicability in New Zealand.

**Overview of agenda item**

<b>Project status</b>	
<b>Board action required at this meeting</b>	<b>Low complexity</b> <ul style="list-style-type: none"> <li>• <b>APPROVE</b> for issue:                     <ul style="list-style-type: none"> <li>○ PBE IPSAS 50 <i>Exploration for and Evaluation of Mineral Resources</i></li> <li>○ <i>Stripping Costs in the Production Phase of a Surface Mine – Amendments to PBE IPSAS 12 Inventories</i></li> </ul> </li> <li>• <b>APPROVE</b> the accompanying signing memos.</li> </ul>

## Purpose and introduction<sup>1</sup>

1. The purpose of this memo is to seek the Board's approval to issue:
  - PBE IPSAS 50 *Exploration for and Evaluation of Mineral Resources*; and
  - *Stripping Costs in the Production Phase of a Surface Mine – Amendments to PBE IPSAS 12 Inventories*.

## Recommendations

2. We recommend that the Board:
  - (a) **APPROVE** for issue:
    - PBE IPSAS 50 *Exploration for and Evaluation of Mineral Resources*; and
    - *Stripping Costs in the Production Phase of a Surface Mine – Amendments to PBE IPSAS 12 Inventories*; and
  - (b) **APPROVE** the two signing memorandums from the Chair of the NZASB to the Chair of the XRB Board requesting approval to issue each respective pronouncement.

## Structure of this memo

3. The remaining sections in this memo are:
  - (a) [Background](#)
  - (b) [Summary of the pronouncements](#)
  - (c) [Results of consultations](#)
  - (d) [Cost/benefit considerations](#)
  - (e) [Due process and other matters](#)
  - (f) [Appendix 1: Summary of the main proposals in ED Exploration for and Evaluation of Mineral Resources](#)
  - (g) [Appendix 2: Summary of the main proposals in ED Stripping Costs in the Production Phase of a Surface Mine – Amendments to PBE IPSAS 12 Inventories](#)

## Background

4. In July 2025, the NZASB issued for public consultation the Exposure Drafts PBE IPSAS 50 *Exploration for and Evaluation of Mineral Resources* ([NZASB ED 2025-7](#)) and *Stripping Costs in the Production Phase of a Surface Mine – Proposed Amendments to PBE IPSAS 12 Inventories* ([NZASB ED 2025-8](#)).

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<sup>1</sup> This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

## Summary of the pronouncements

### *PBE IPSAS 50 Exploration for and Evaluation of Mineral Resources*

5. PBE IPSAS 50 introduces accounting for expenditure incurred in the exploration for and evaluation of mineral resources. The standard is aligned with the requirements in NZ IFRS 6 *Exploration for and Evaluation of Mineral Resources*, with limited changes for PBEs.
6. The requirements introduced by the draft standard are summarised in [Appendix 1](#).

### *Stripping Costs in the Production Phase of a Surface Mine – Amendments to PBE IPSAS 12 Inventories*

7. The draft amending standard *Stripping Costs in the Production Phase of a Surface Mine – Amendments to PBE IPSAS 12 Inventories* adds an authoritative appendix to PBE IPSAS 12. This appendix provides interpretive guidance on when to capitalise or expense costs incurred to remove waste material in surface mining operations.
8. This guidance is aligned with the guidance in NZ IFRIC 20 *Stripping costs in the Production Phase of a Surface Mine*, with limited changes of terminology for PBEs.
9. The requirements introduced by the draft amending standard are summarised in [Appendix 2](#).

### *Mandatory date*

10. The mandatory date of both these pronouncements is 1 January 2027 with application permitted for an ‘early adoption accounting period’.

### *RDR Concessions*

11. The pronouncements do not introduce new RDR concessions into PBE Standards. There are no new disclosure requirements introduced by Draft *Stripping Costs in the Production Phase of a Surface Mine – Amendments to PBE IPSAS 12 Inventories*, and the new disclosures required by Draft PBE IPSAS 50 are considered necessary for Tier 2 PBEs (as agreed with the Board when developing the Exposure Drafts in April 2025).

## Results of consultations

12. *PBE IPSAS 50 Exploration for and Evaluation of Mineral Resources* and *Stripping Costs in the Production Phase of a Surface Mine – Amendments to PBE IPSAS 12 Inventories* are based on pronouncements previously issued by the IPSASB and IASB. Those pronouncements were subject to the IPSASB’s and IASB’s respective due processes.
13. The NZASB agreed not to comment on either of these proposals as they were being consulted upon by the IPSASB (ED 86, *Exploration for and Evaluation of Mineral Resources* and ED 87, *Stripping costs in the Production Phase of a Surface Mine (Amendments to IPSAS 12)*).
14. The NZASB approved the NZASB ED 2025-7 and NZASB ED 2025-8 for issue at its April 2025 meeting. The EDs were published on the XRB’s website on 1 July 2025, with

comments closing on 30 September 2025. We informed the representatives of the Treasury and MBIE about the consultation and we included a link to the EDs in July to September 2025 Accounting Alerts to raise awareness among New Zealand constituents.

15. As at the date of this memo, the NZASB has not received any comments from constituents on the EDs and has no indication that any will be provided. As a result, the final pronouncements are identical to those included in the EDs, subject to a minor change noted below.
16. Staff will provide the Board with a verbal update if any comments are received between the date of this paper and the end of the comment period.

*Minor refinement to Basis for Conclusions in PBE IPSAS 50*

17. In drafting the final draft of PBE IPSAS 50, staff have added paragraphs BC1 and BC2 to provide information around when the IASB released IFRS 6 and when IPSASB released IPSAS 50, as well as including greater rationale around the benefits of issuing PBE IPSAS 50 even when no New Zealand PBEs are engaging in these activities.

BC1. IFRS 6 *Exploration for and Evaluation of Mineral Resources*, issued by IASB in December 2004, provided guidance on accounting for exploration and evaluation expenditures, including the recognition, measurement and presentation of exploration and evaluation assets. The IPSASB subsequently issued equivalent standard IPSAS 50, *Exploration for and Evaluation of Mineral Resources* in November 2024.

BC2. The New Zealand Accounting Standards Board (NZASB) considered that the requirements of IPSAS 50 are generally appropriate for application by public benefit entities and issued equivalent standard PBE IPSAS 50 *Exploration for and Evaluation of Mineral Resources* in [month, year]. The NZASB noted that the key benefit of adopting these pronouncements into the PBE Standards is to future-proof the standards in a prospective manner in case PBEs do start engaging in mining activities in the future. The NZASB believe that being preventative, rather than reactionary, provides greater certainty and clarity for preparers, reducing cost associated with uncertainty and enabling better decision-making when assessing the financial reporting implications of entering into these types of activities.

18. These refinements are considered minor and done solely to provide greater context to readers of the BCs around the timeline of the project and the NZASB's considerations around PBE IPSAS 50. These do not have any impact on the proposed requirements, which are identical to the ED.

**Cost/benefit considerations**

19. We are not aware of any PBE in New Zealand currently directly engaged in mining activities. However, it may be possible that such PBEs will exist in future, given mining permits continue to be issued by New Zealand Petroleum and Minerals (NZP&M) and given the new forms of mining collaborations between local government and private companies are being introduced internationally. Also in the past, some for-profit entities within mixed groups have been involved in mining activities (e.g. Solid Energy New Zealand).
20. The key benefit of adopting these pronouncements into the PBE Standards is to future-proof the standards in a prospective manner in case PBEs do start engaging in mining

activities in the future. We consider being preventative, rather than reactionary, provides greater certainty and clarity for preparers, reducing cost associated with uncertainty and enabling better decision-making when assessing the financial reporting implications of entering into these types of activities.

21. Introducing these changes to the PBE Standards will mean PBE entities who may start engaging in mining activities will benefit from:
  - Enhanced guidance, as there is no specific guidance on exploration and evaluation activities or on treatment of stripping cost in PBE Standards;
  - The ability to develop an appropriate accounting policy for exploration and evaluation assets without following the strict hierarchy of *IPSAS 3 Accounting Policies, Changes in Accounting Estimates and Errors*;
  - Alignment of PBE Standards and NZ IFRS Standards for mixed group entities including increased harmonisation with Australia (given Australian PBEs report under IFRS standards); and
  - Alignment of PBE Standards with IPSAS for entities which may want to enter global joint arrangements.
22. We cannot accurately gauge the costs which may arise from applying these proposals. However, in our consultation, we specifically asked for constituents' views on the costs and benefits of either of the proposals, and no concerns were raised.
23. Given that the pronouncements are based on existing NZ IFRS Standards, have very limited application in New Zealand, and raised no objections in our consultation, we do not expect any PBE to incur significant costs by bringing these proposals into the PBE Standards.
24. Based on our analysis above we consider the benefits of issuing these pronouncements outweigh the costs.

### **Due process and other matters**

25. The due process followed by the NZASB complied with the due process requirements established by the XRB Board and, in our view, meets the requirements of section 22 of the Financial Reporting Act 2013.
26. In accordance with section 22(2) of the Financial Reporting Act 2013, we have considered the Final Standard does not include requirements that would result in the disclosure of personal information, and therefore no consultation with the Privacy Commissioner is required.
27. The final drafts of the standards are attached as agenda items 9.1b and 9.1d. The draft signing memorandums from the Chair of the NZASB to the Chair of the XRB Board are attached as agenda items 9.1c and 9.1e.

**Questions for the Board:**

- Q1. Does the Board **APPROVE** for issue PBE IPSAS 50 *Exploration for and Evaluation of Mineral Resources*?
- Q2. Does the Board **APPROVE** the signing memorandum from the Chair of the NZASB to the Chair of the XRB Board, requesting approval to issue the standard PBE IPSAS 50?
- Q3. Does the Board **APPROVE** for issue amending standard *Stripping Costs in the Production Phase of a Surface Mine – Amendments to PBE IPSAS 12 Inventories*?
- Q4. Does the Board **APPROVE** the signing memorandum from the Chair of the NZASB to the Chair of the XRB Board, requesting approval to issue the amending standard?



## Appendix 1: Summary of the main proposals in ED *PBE IPSAS 50 Exploration for and Evaluation of Mineral Resources*

The proposals below were included in the ED *PBE IPSAS 50 Exploration for and Evaluation of Mineral Resources* and remain unchanged in the final draft of *PBE IPSAS 50 Exploration for and Evaluation of Mineral Resources*.

<i>Exploration for and Evaluation of Mineral Resources</i> proposals	Ref
<p><b>Scope</b></p> <p>The draft standard applies to exploration and evaluation expenditures that are incurred:</p> <ol style="list-style-type: none"> <li>After entity has obtained the legal rights to explore a specific area; and</li> <li>Before technical feasibility and commercial viability of extracting a mineral resource are demonstrable.</li> </ol> <p>When the technical feasibility and commercial viability of extracting a mineral resource are demonstrable an exploration and evaluation asset shall no longer be classified as such and shall be reclassified.</p>	Para 3-5, and 18
<p><b>Exemption from PBE IPSAS 3</b></p> <p>The draft standard permits an entity to develop an accounting policy for exploration and evaluation assets without specifically considering the requirements of paragraphs 14 and 15 of PBE IPSAS 3 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> which specify a hierarchy of criteria that an entity should use in developing an accounting policy if no PBE IPSAS applies specifically to an item or transaction<sup>2</sup>.</p>	Para 7-8
<p>The impact of the exemption is limited by identifying expenditures to be included in and excluded from exploration and evaluation assets.</p>	Para 10-12
<p><b>Measurement</b></p> <p>Exploration and evaluation assets shall be initially measured at cost. Subsequently the cost model or the revaluation model shall be applied.</p>	Para 9 and 13
<p><b>Impairment</b></p> <p>When facts and circumstances suggest that the carrying amount of the exploration and evaluation assets may exceed their recoverable amount an entity shall perform an impairment test.</p> <p>The draft standard varies the recognition of impairment from that in PBE IPSAS 26, <i>Impairment of Cash-Generating Assets</i>, but measures the impairment in accordance with PBE IPSAS 26 once the impairment is identified.</p>	Para 19-23
<p><b>Disclosures</b></p> <p>Entity should disclose:</p> <ol style="list-style-type: none"> <li>Its accounting policies for exploration and evaluation expenditures including the recognition of exploration and evaluation assets; and</li> <li>The amounts of assets, liabilities, revenue and expense, and operating and investing cash flows arising from the exploration for and evaluation of mineral resources.</li> </ol> <p>Exploration and evaluation assets should be treated as a separate class of assets and an entity should provide disclosures required by either PBE IPSAS 17 or PBE IPSAS 31 consistent with how the assets are classified.</p>	Para 24-26

## Appendix 2: Summary of the main proposals in ED *Stripping Costs in the Production Phase of a Surface Mine – Proposed Amendments to IPSAS 12 Inventories*

The proposals below were included in the ED *Stripping Costs in the Production Phase of a Surface Mine – Proposed Amendments to IPSAS 12 Inventories* and remain unchanged in the final draft of amending standard *Stripping Costs in the Production Phase of a Surface Mine – Amendments to PBE IPSAS 12 Inventories*.

<i>Stripping Costs in the Production Phase of a Surface Mine</i> proposals	Ref
<p><b>Recognition</b></p> <p>There are two potential benefits accruing to the entity from stripping activities:</p> <ol style="list-style-type: none"> <li>1. Providing access to ore bodies so these can be extracted. Those should be recognised as inventory in line with PBE IPSAS 12; and</li> <li>2. Improved access to further quantities for future mining which should be recognised as non-current “stripping activity asset” if specified criteria are met.</li> </ol> <p>Otherwise, those costs should be recognised as an expense.</p>	Para A1-A8
<p>The stripping activity asset shall be accounted for as an addition to, or as an enhancement of, an existing asset. In other words, the stripping activity asset will be accounted for as part of an existing asset. The nature of that existing asset will determine whether the stripping activity asset is classified as tangible or intangible.</p>	Para A10 – A11
<p><b>Measurement</b></p> <p>Stripping activity asset shall be measured at cost. The draft amending standard specifies what costs expenditures to be included in, and excluded, from the stripping activity asset.</p> <p>Subsequently the cost model or the revaluation model shall be applied.</p>	Para A12-A16

<sup>2</sup> Those proposals are aligned with IFRS 6 pronouncements. In 2023 the IASB completed their comprehensive review of the accounting for extractive activities. The IASB decided not to develop new or amended recognition, measurement or disclosure requirements for exploration and evaluation expenditure or other aspects of accounting for extractive activities. The IASB acknowledged that diverse accounting policies for exploration and evaluation expenditure would continue to be used in practice. However, feedback from investors and other users of financial statements suggested that those diverse accounting policies were not a significant concern. Based on those findings the IASB decided to remove the temporary nature of the exemption. Therefore, we believe that guidance which is aligned with IFRS 6 should also result in useful information for preparers and users in the PBE sector.

# **PUBLIC BENEFIT ENTITY INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 50 EXPLORATION FOR AND EVALUATION OF MINERAL RESOURCES (PBE IPSAS 50) | STANDARD | 2025**

This Standard was made under section 12(a) of the Financial Reporting Act 2013 by the External Reporting Board after complying with section 22 of that Act.

This Standard is secondary legislation issued under the authority of the Legislation Act 2019.

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**Minimum Legislative Information**

(This information is not part of the standard)

**This Standard is secondary legislation issued under the authority of the Legislation Act 2019.**

<b>Title</b>	PBE IPSAS 50 <i>Exploration for and Evaluation of Mineral Resources</i>   Standard   2025
<b>Principal or amendment</b>	Principal
<b>Consolidated version</b>	No
<b>Empowering Act and provisions</b>	This Standard was made under Section 12(a) of the <a href="#">Financial Reporting Act 2013</a> .
<b>Replacement empowering Act and provision</b>	Not applicable.
<b>Maker name</b>	External Reporting Board
<b>Administering agency</b>	External Reporting Board
<b>Date made</b>	[date] October 2025
<b>Publication date</b>	[date] October 2025
<b>Notification date</b>	[date] October 2025
<b>Commencement date</b>	This Standard takes effect on [date] November 2025.
<b>End date</b>	Not applicable
<b>Consolidation as at date</b>	Not applicable
<b>Related instruments</b>	<a href="#">PBE IPSAS 31 <i>Intangible Assets</i></a> ; and <a href="#">XRB A1 <i>Application of the Accounting Standards Framework</i></a>

**Explanatory note**

*This note is not part of the standard but is intended to indicate its general effect.*

This Standard provides guidance on accounting for exploration and evaluation expenditures, including the recognition, measurement and presentation of exploration and evaluation assets.

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**ISBN**

[XXX]

**Commencement and application**

*This note is not part of the standard but is intended to indicate its general effect.*

The [draft] Standard has a mandatory date of 1 January 2027, meaning it must be applied by Tier 1 and Tier 2 public benefit entities (PBEs) for accounting periods that begin on or after this date.

Application to an earlier accounting period is permitted for accounting periods that end after this [draft] Standard takes effect – refer to paragraphs 28.1–28.1.3 of this [draft] Standard.

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## PBE IPSAS 50 EXPLORATION FOR AND EVALUATION OF MINERAL RESOURCES

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**The following is available on the XRB website as additional material:**

IPSASB Basis for Conclusions

Public Benefit Entity International Public Sector Accounting Standard 50 *Exploration for and Evaluation of Mineral Resources* is set out in paragraphs 1–29 and Appendix A. All the paragraphs have equal authority. PBE IPSAS 50 should be read in the context of its objective, the NZASB’s Basis for Conclusions on PBE IPSAS 50, the IPSASB’s Basis for Conclusions on IPSAS 50, the *Public Benefit Entities’ Conceptual Framework* and Standard XRB A1 *Application of the Accounting Standards Framework*. PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

## Objective

1. The objective of this Standard is to specify the financial reporting for the exploration for and evaluation of mineral resources.
2. In particular, the Standard requires:
  - (a) Limited improvements to existing accounting practices for exploration and evaluation expenditures.
  - (b) Entities that recognise exploration and evaluation assets to assess such assets for impairment in accordance with this Standard and measure any impairment in accordance with PBE IPSAS 26 *Impairment of Cash-Generating Assets*.
  - (c) Disclosures that identify and explain the amounts in the entity's financial statements arising from the exploration for and evaluation of mineral resources and help users of those financial statements understand the amount, timing and certainty of future cash flows from any exploration and evaluation assets recognised.

## Scope

3. An entity that prepares and presents financial statements shall apply this Standard to exploration and evaluation expenditures that it incurs.
- 3.1 **This Standard applies to Tier 1 and Tier 2 public benefit entities.**
4. This Standard does not address other aspects of accounting by entities engaged in the exploration for and evaluation of mineral resources.
5. An entity shall not apply this Standard to expenditures incurred:
  - (a) Before the exploration for and evaluation of mineral resources, such as expenditures incurred before the entity has obtained the legal rights to explore a specific area.
  - (b) After the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

## Definitions

6. The following terms are used in this Standard with the meanings specified:

**Exploration and evaluation assets** means exploration and evaluation expenditures recognised as assets in accordance with the entity's accounting policy.

**Exploration and evaluation expenditures** means expenditures incurred by an entity in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

**Exploration for and evaluation of mineral resources** means the search for mineral resources, including minerals, oil, natural gas, and similar non-regenerative resources after the entity has obtained legal rights to explore in a specific area, as well as the determination of the technical feasibility and commercial viability of extracting the mineral resource.

Any other terms defined in other PBE Standards are used in this Standard with the same meaning as in those Standards and are reproduced in the *Glossary of Defined Terms* published separately.

## Recognition of Exploration and Evaluation Assets

7. When developing its accounting policies, an entity recognising exploration and evaluation assets shall apply paragraph 12 of PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*.

### Exemption from PBE IPSAS 3 Paragraphs 14 and 15

8. Paragraphs 14 and 15 of PBE IPSAS 3 specify sources of authoritative requirements and guidance that management is required to consider in developing an accounting policy for an item if no PBE Standard applies specifically to that item. Subject to paragraphs 10 and 11 below, this Standard exempts an entity from applying those paragraphs to its accounting policies for the recognition and measurement of exploration and evaluation assets.

## Measurement of Exploration and Evaluation Assets

### Initial Measurement

9. **Exploration and evaluation assets shall be measured at cost.**

### Elements of Cost of Exploration and Evaluation Assets

10. An entity shall determine an accounting policy specifying which expenditures are recognised as exploration and evaluation assets and apply the policy consistently. In making this determination, an entity considers the degree to which the expenditure can be associated with finding specific mineral resources. The following are examples of expenditures that might be included in the initial measurement of exploration and evaluation assets (the list is not exhaustive):
- (a) Acquisition of rights to explore;
  - (b) Topographical, geological, geochemical and geophysical studies;
  - (c) Exploratory drilling;
  - (d) Trenching;
  - (e) Sampling; and
  - (f) Activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource.
11. Expenditures related to the development of mineral resources shall not be recognised as exploration and evaluation assets. The *Public Benefit Entities' Conceptual Framework* and PBE IPSAS 31 *Intangible Assets* provide guidance on the recognition of assets arising from development.
12. In accordance with PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* an entity recognises any obligations for removal and restoration that are incurred during a particular period as a consequence of having undertaken the exploration for and evaluation of mineral resources.

### Subsequent Measurement

13. An entity shall apply the cost model or the revaluation model to the exploration and evaluation assets. If the revaluation model is applied (either according to the model in PBE IPSAS 17 *Property, Plant, and Equipment*, or according to the model in PBE IPSAS 31) it shall be consistent with the classification of the assets (see paragraph 16).

### Changes in Accounting Policies

14. **An entity may change its accounting policies for exploration and evaluation expenditures if the change makes the financial statements more relevant to the economic decision-making needs of users and no less reliable, or more reliable and no less relevant to those needs. An entity shall judge relevance and reliability using the criteria in PBE IPSAS 3.**
15. To justify changing its accounting policies for exploration and evaluation expenditures, an entity shall demonstrate that the change brings its financial statements closer to meeting the criteria in PBE IPSAS 3, but the change need not achieve full compliance with those criteria.



## Presentation

### Classification of Exploration and Evaluation Assets

16. An entity shall classify exploration and evaluation assets as tangible or intangible according to the nature of the assets acquired and apply the classification consistently.
17. Some exploration and evaluation assets are treated as intangible (e.g., drilling rights), whereas others are tangible (e.g., vehicles and drilling rigs). To the extent that a tangible asset is consumed in developing an intangible asset, the amount reflecting that consumption is part of the cost of the intangible asset. However, using a tangible asset to develop an intangible asset does not change a tangible asset into an intangible asset.

### Reclassification of Exploration and Evaluation Assets

18. An exploration and evaluation asset shall no longer be classified as such when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Exploration and evaluation assets shall be assessed for impairment, and any impairment loss recognised, before reclassification.

## Impairment

### Recognition and Measurement

19. **Exploration and evaluation assets shall be assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. When facts and circumstances suggest that the carrying amount exceeds the recoverable amount, an entity shall measure, present and disclose any resulting impairment loss in accordance with PBE IPSAS 26, except as provided by paragraph 22 below.**
20. For the purposes of exploration and evaluation assets only, paragraph 21 of this Standard shall be applied rather than paragraphs 25–29 of PBE IPSAS 26 when identifying an exploration and evaluation asset that may be impaired. Paragraph 21 uses the term ‘assets’ but applies equally to separate exploration and evaluation assets or a cash-generating unit, in the case of cash-generating assets per PBE IPSAS 26.
21. One or more of the following facts and circumstances indicate that an entity should test exploration and evaluation assets for impairment (the list is not exhaustive):
  - (a) The period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed.
  - (b) Substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned.
  - (c) Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area.
  - (d) Sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full, from successful development or by sale.

In any such case, or similar cases, the entity shall perform an impairment test in accordance with PBE IPSAS 26. Any impairment loss is recognised as an expense in accordance with PBE IPSAS 26.

### Specifying the Level at which Exploration and Evaluation Assets are Assessed for Impairment

22. An entity shall determine an accounting policy for allocating exploration and evaluation assets to cash-generating units or groups of cash-generating units for the purpose of assessing such assets for impairment.

23. The level identified by the entity for the purposes of testing exploration and evaluation assets for impairment may comprise one or more cash-generating units.

## Disclosure

24. **An entity shall disclose information that identifies and explains the amounts recognised in its financial statements arising from the exploration for and evaluation of mineral resources.**
25. To comply with paragraph 24, an entity shall disclose:
- (a) Its accounting policies for exploration and evaluation expenditures including the recognition of exploration and evaluation assets.
  - (b) The amounts of assets, liabilities, revenue and expense, and operating and investing cash flows arising from the exploration for and evaluation of mineral resources.
26. An entity shall treat exploration and evaluation assets as a separate class of assets and make the disclosures required by either PBE IPSAS 17 or PBE IPSAS 31 consistent with how the assets are classified.

## Commencement and Application

27–28. [Not used]

- 28.1 An entity shall apply this Standard in accordance with the commencement and application date provisions in paragraphs 28.1.1 – 28.1.3. An entity that applies this Standard to an ‘early adoption accounting period’ shall disclose that fact.

### When the Standard takes effect (section 27 Financial Reporting Act 2013)

- 28.1.1 The Standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019.<sup>1</sup>

### Accounting period in relation to which the Standard commences to apply (section 28 Financial Reporting Act 2013)

- 28.1.2 The accounting periods in relation to which this Standard commences to apply are:

- (a) For an **early adopter**, those accounting periods following, and including, the **early adoption accounting period**.
- (b) For any other reporting entity, those accounting periods following, and including, the first accounting period for the entity that begins on or after the **mandatory date**.

- 28.1.3 In paragraph 28.1.2:

**Early adopter** means a reporting entity that applies this Standard for an early adoption accounting period.

**Early adoption accounting period** means an accounting period of the early adopter:

- (a) That begins before the mandatory date but has not ended or does not end before this Standard takes effect (and to avoid doubt, that period may have begun before this Standard takes effect); and
- (b) For which the early adopter:
  - (i) First applies this Standard in preparing its financial report; and
  - (ii) Discloses in its financial report for that accounting period that this Standard has been applied for that period.

**Mandatory date** means 1 January 2027.

<sup>1</sup> This footnote is not part of the Standard. The Standard was published on [date] and takes effect on [date].

## Transitional Provisions

29. If it is impracticable to apply a particular requirement of paragraph 19 to comparative information that relates to annual periods beginning before 1 January 2027, an entity shall disclose that fact. PBE IPSAS 3 explains the term ‘impracticable’.

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## Appendix A

### Amendments to Other Standards

#### Amendments to PBE IPSAS 31 *Intangible Assets*

Paragraph 3 is amended, and paragraph 133.10 is added. New text is underlined, and deleted text is struck through.

#### Scope

...

3. This Standard does not apply to:

...

- (c) The recognition and measurement of exploration and evaluation assets (see PBE IPSAS 50, *Exploration for and Evaluation of Mineral Resources* ~~the relevant international or national accounting standard dealing with exploration for, and evaluation of, mineral resources~~).

...

#### Commencement and application

...

#### PBE IPSAS 50 Exploration for and Evaluation of Mineral Resources

133.10 The Standard PBE IPSAS 50 *Exploration for and Evaluation of Mineral Resources*, issued in [month year] amended paragraph 3. An entity shall apply those amendments when it applies PBE IPSAS 50.

### ***XRB A1 Application of the Accounting Standards Framework***

Appendix C is amended. New text is underlined.

#### APPENDIX C

#### **TIER 1 PBE ACCOUNTING REQUIREMENTS AND TIER 2 PBE ACCOUNTING REQUIREMENTS TO BE APPLIED BY PUBLIC BENEFIT ENTITIES**

*This appendix forms an integral part of XRB A1 Application of the Accounting Standards Framework.*

...

#### **Accounting Standards**

...

PBE IPSAS 50      Exploration for and Evaluation of Mineral Resources

## Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, PBE IPSAS 50.*

- BC1. IFRS 6 *Exploration for and Evaluation of Mineral Resources*, issued by IASB in December 2004, provided guidance on accounting for exploration and evaluation expenditures, including the recognition, measurement and presentation of exploration and evaluation assets. The IPSASB subsequently issued equivalent standard IPSAS 50, *Exploration for and Evaluation of Mineral Resources* in November 2024.
- BC2. The New Zealand Accounting Standards Board (NZASB) considered that the requirements of IPSAS 50 are generally appropriate for application by public benefit entities and issued equivalent standard PBE IPSAS 50 *Exploration for and Evaluation of Mineral Resources* in [month, year]. The NZASB noted that the key benefit of adopting these pronouncements into the PBE Standards is to future-proof the standards in a prospective manner in case PBEs do start engaging in mining activities in the future. The NZASB believe that being preventative, rather than reactionary, provides greater certainty and clarity for preparers, reducing cost associated with uncertainty and enabling better decision-making when assessing the financial reporting implications of entering into these types of activities.
- BC3. The NZASB has modified IPSAS 50 for application by Tier 1 and Tier 2 public benefit entities. Where applicable, the language has been generalised for use by public benefit entities.
- BC4. The following extracts from the IPSASB's Basis for Conclusions provide background to this Standard.

### Exploration for and Evaluation of Mineral Resources in the Public Sector

- BC4. An entity will typically need to conduct exploration and evaluation activities to determine if a site should be developed. Before this Standard, there was no specific guidance on exploration and evaluation activities in IPSAS.
- BC5. The IPSASB determined that guidance on exploration and evaluation costs should be aligned with IFRS 6, applicable to exploration and evaluation activities of a commercial nature, and not of a service delivery nature. In reaching this conclusion, the IPSASB determined that a number of resource-rich jurisdictions had entered into production sharing or co-production agreements with private companies, rather than the traditional mining licensing or royalty agreements. The IPSASB found that from the public sector entity's perspective, such agreements may fall within the scope of IPSAS 37, *Joint Arrangements*, and it is possible for the resulting joint operation or joint venture to incur exploration and evaluation costs.
- BC6. The IPSASB noted that an entity may explore for mineral resources due to other rights, e.g., sovereign rights, without needing a license (a legal right). The IPSASB determined that, in such instances, the exploration and evaluation expenditures are within the scope of this Standard.
- BC7. Respondents to the IPSASB's Consultation Paper, *Natural Resources* generally agreed with the IPSASB's approach to develop the Standard aligned with IFRS 6.
- BC8. The IPSASB did not identify any public sector specific reasons to depart from principles in IFRS 6 in the development of this Standard, except for terminology and other IPSASB-specific formatting and consistency amendments. The IPSASB decided to retain the terminology of "commercial viability" and "impairment of cash-generating assets" used in IFRS 6, because the Standard is only applicable to exploration and evaluation activities of a commercial nature, and it is considered that this would be a relevant to public sector entities who use the Standard.
- BC9. The IPSASB noted the view of some respondents to Exposure Draft 86 that the Standard should provide guidance to recognize, as intangible assets, the State's power to issue exploration rights to entities. The IPSASB noted that accounting by the issuer of the exploration rights is not in the scope of this Standard and noted, furthermore, that powers and rights conferred by legislation, a constitution, or by equivalent means, such as mining rights managed by the state itself, are also excluded from the scope of IPSAS 31, *Intangible Assets*.

### Comparison with the Conceptual Framework

- BC10. The IPSASB noted that where an entity chooses an accounting policy that recognizes and measures the exploration and evaluation expenditure as assets, that policy may not be consistent with the definition of an asset in the Conceptual Framework. Recent outreach by the IASB

noted that private sector constituents generally agreed that IFRS 6 resulted in information that was useful to both preparers and users of IFRS financial statements. The IPSASB noted that guidance which is aligned with IFRS 6 should also result in useful information for preparers and users in the public sector and concluded that the exemption from applying paragraphs 14 and 15 of IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provided for in paragraph 8 of the Standard is acceptable.

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#### **Reversal of impairment losses**

BC13. The IPSASB noted that for the reversal of impairment losses, entities should apply the specified requirements set out in paragraphs 99–105 of IPSAS 26, *Impairment of Cash-Generating Assets*, because these requirements apply to all entities for all assets (excluding goodwill and equity investments classified as available for sale).

### **Comparison with IPSAS 50**

PBE IPSAS 50 *Exploration for and Evaluation of Mineral Resources* is drawn from IPSAS 50, *Exploration for and Evaluation of Mineral Resources*.

The significant differences between PBE IPSAS 50 and IPSAS 50 are:

- (a) PBE IPSAS 50 uses different terminology from IPSAS 50. For example, PBE IPSAS 50 refers to “cost model” or “revaluation model” (in line with PBE IPSAS 17 *Property, Plant, and Equipment* and PBE IPSAS 31 *Intangible Assets*) while IPSAS 50 refers to “historical cost model” or “fair value” (in line with IPSAS 45 *Property, Plant, and Equipment* and IPSAS 31, *Intangible Assets*).
- (b) PBE IPSAS 50 does not contain requirement regarding size of the cash generating unit. IPSAS 50 specifies that the size of the cash generating unit cannot exceed the segment determined in accordance with IPSAS 18, *Segment Reporting*.
- (c) PBE IPSAS 50 includes additional consequential amendment to XRB A1 *Application of the Accounting Standards Framework*. Furthermore, in PBE IPSAS 50, the consequential amendments that do not relate to PBE Standards (i.e. amendments to IPSAS 33 *First-time Adoption of Accrual Basis IPSASs*) have been removed.

## History of Amendments

Table of Pronouncements – PBE IPSAS 50 *Exploration for and Evaluation of Mineral Resources*

This table lists the pronouncements establishing and substantially amending PBE IPSAS 50.

Pronouncements	Date issued	Early operative date	Mandatory date (annual reporting periods... on or after ...)
PBE IPSAS 50 <i>Exploration for and Evaluation of Mineral Resources</i>	[Date]	Early application is permitted	1 Jan 2027

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## Memorandum

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**To:** John Kensington, Chair External Reporting Board

**Subject:** **PBE IPSAS 50 Exploration for and Evaluation of Mineral Resources**

**Date:** 9 October 2025

**Prepared by:** Carolyn Cordery, Chair NZASB

**Through:** NZASB, Michelle Lombaard

**Copy:** Michelle Lombaard

**Action Required**

**For Information Purposes Only**

### Introduction<sup>1</sup>

1. In accordance with the protocols established by the XRB Board, the NZASB seeks your approval to issue PBE IPSAS 50 *Exploration for and Evaluation of Mineral Resources*.
2. This standard is based on IPSAS 50, *Exploration for and Evaluation of Mineral Resources*, issued by the International Public Sector Accounting Standards Board (IPSASB) in November 2024. This in turn is aligned with the requirements in IFRS 6, *Exploration for and Evaluation of Mineral Resources*, issued by the International Accounting Standards Board (IASB) and adopted for New Zealand for-profit entities.
3. PBE IPSAS 50 introduces accounting for expenditure incurred in the exploration for and evaluation of mineral resources, that is, expenditures that are incurred:
  - a) After entity has obtained the legal rights to explore a specific area; and
  - b) Before technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

When the technical feasibility and commercial viability of extracting a mineral resource are demonstrable an exploration and evaluation asset shall no longer be classified as such and be reclassified.

4. PBE IPSAS 50 permits an entity to develop an accounting policy for exploration and evaluation assets without following the requirements of PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*. This exemption is consistent with NZ IFRS 6 pronouncements. Instead of following the strict hierarchy of criteria contained in paragraphs 14 and 15 of PBE IPSAS 3, PBE IPSAS 50 provides clearer and more flexible principles for identifying expenditures to be included in and excluded from exploration and evaluation assets and defines expenditures to be excluded from them.
5. When facts and circumstances suggest that the carrying amount of the exploration and evaluation assets may exceed their recoverable amount the standard requires entity to perform an impairment test. The standard varies the recognition of impairment (including

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<sup>1</sup> This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).



impairment indicators) from that in PBE IPSAS 26 *Impairment of Cash-Generating Assets* but measures the impairment in accordance with PBE IPSAS 26 once the impairment is identified.

6. PBE IPSAS 50 defines that exploration and evaluation assets shall be initially measured at cost. Subsequently, either the cost model or the revaluation model shall be applied.
7. PBE IPSAS 50 also introduces requirements to disclose:
  - a) Accounting policies for exploration and evaluation expenditures including the recognition of exploration and evaluation assets; and
  - b) The amounts of assets, liabilities, revenue and expense, and operating and investing cash flows arising from the exploration for and evaluation of mineral resources.

### **Benefits to New Zealand constituents**

8. We are not aware of any public benefit entities (PBEs) in New Zealand currently directly engaged in mining activities. However, it may be possible that such PBEs will exist in future, given mining permits continue to be issued by New Zealand Petroleum and Minerals (NZP&M) and given the new forms of mining collaborations between local government and private companies are being introduced internationally. Also in the past, some for-profit entities within mixed groups have been involved in mining activities (e.g. Solid Energy New Zealand).
9. The key benefit of adopting these pronouncements into the PBE Standards is to future-proof the standards in a prospective manner in case PBEs do start engaging in mining activities in the future. The NZASB consider being preventative, rather than reactionary, provides greater certainty and clarity for preparers, reducing cost associated with uncertainty and enabling better decision-making when assessing the financial reporting implications of entering into these types of activities.
10. Introducing these changes to the PBE Standards will mean PBE entities who may start engaging in mining activities will benefit from:
  - Enhanced guidance, as there is no specific guidance on exploration and evaluation activities in PBE Standards;
  - The ability to develop an appropriate accounting policy for exploration and evaluation assets without following the strict hierarchy of IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*;
  - Alignment of PBE Standards and NZ IFRS Standards for mixed group entities including increased harmonisation with Australia (given Australian PBEs report under IFRS standards); and
  - Alignment of PBE Standards with IPSAS for entities which may want to enter global joint arrangements.
11. We cannot accurately gauge the costs which may arise from applying these proposals. However, in our consultation, we specifically asked for constituents' views on the costs and benefits of either of the proposals, and no concerns were raised.
12. Given that the pronouncements are based on existing NZ IFRS Standards, have very limited application in New Zealand, and raised no objections in our consultation, we do not expect any PBE to incur significant costs by bringing these proposals into the PBE Standards.

## Due process

13. PBE IPSAS 50 *Exploration for and Evaluation of Mineral Resources* is based on pronouncements previously issued by the IPSASB and IASB. Those pronouncements were subject to the IPSASB's and IASB's respective due processes.
14. The NZASB agreed not to comment on these proposals as they were being consulted upon by the IPSASB (ED 86, *Exploration for and Evaluation of Mineral Resources*).
15. The NZASB approved the NZASB ED 2025-7 PBE IPSAS 50 *Exploration for and Evaluation of Mineral Resources* for issue at its June 2024 meeting. The NZASB ED 2025-7 was published on the XRB's website on 1 July 2025, with comments closing on 30 September 2025. We informed the representatives of the Treasury and MBIE about the consultation and we included a link to the ED in July to September 2025 Accounting Alerts to raise awareness among New Zealand constituents.
16. The NZASB did not receive any comments from constituents on the ED. As a result, the final requirements are identical to those proposed in the ED. Only minor changes to the basis for conclusion paragraphs were made subsequent to the ED to provide more rationale around the timing of these proposals and the NZASB's assessment of the benefits despite no PBEs engaging in these types of activities.
17. The NZASB approved PBE IPSAS 50 *Exploration for and Evaluation of Mineral Resources* in October 2025. The due process followed by the NZASB complied with the due process requirements established by the XRB Board and, in the NZASB's view, meets the requirements of section 22 of the Financial Reporting Act 2013.
18. In accordance with section 22(2) of the Financial Reporting Act 2013, the NZASB considers the standard does not include requirements that would result in the disclosure of personal information. Therefore, no consultation with the Privacy Commissioner is required.

## Reduced Disclosure Regime (RDR) concessions

19. The standard introduces new disclosure requirements as listed in paragraph 7 of this memo. The NZASB agreed not to provide RDR concession for these disclosures, noting that:
  - The required disclosures relate to key disclosure area (accounting policies on recognition) which are important for users to understand the financial statements;
  - The equivalent for-profit standard NZ IFRS 6 *Exploration for and Evaluation of Mineral Resources* does not provide any RDR concessions, and we have not found any PBE-specific reason for providing RDR concessions to Tier 2 PBEs; and
  - Providing these disclosures should not be costly, as the necessary information should already be available through the application of PBE IPSAS 50.
20. As such, the standard does not introduce any new RDRs for Tier 2 PBEs.

## Consistency with XRB Financial Reporting Strategy

21. This standard will be applicable for Tier 1 and Tier 2 PBEs.
22. The issuance of this standard is consistent with the current Financial Reporting Strategy. It aligns with international standards issued by the IPSASB and is consistent with the Accounting Standards Framework.

23. Australia does not adopt IPSASB standards but apply modified IFRS standards to their public sector and not-for-profit entities. As the IPSASB requirements are also based on the IFRS standards, the issuance of this standard will facilitate more harmonisation with IFRS standards and Australia.

### **Commencement and application date**

24. The PBE IPSAS 50 takes effect on the 28th day after the date of its publication under the Legislation Act 2019. The standard is expected to be published on 23 October 2025 and take effect on 20 November 2025.
25. An entity that is not an early adopter is required to apply the standard for accounting periods beginning on or after 1 January 2027.
26. Application is permitted for an 'early adoption accounting period' when that period begins before the mandatory date but has not ended or does not end before this standard takes effect. This is consistent with section 28 of the Financial Reporting Act 2013.

### **Other matters**

27. There are no other matters relating to the issue of this standard that the NZASB considers to be pertinent or that should be drawn to your attention.

### **Recommendation**

28. The NZASB recommends that you sign the attached certificate of determination and approval certificate on behalf of the XRB Board.

### **Attachments**

1. PBE IPSAS 50 *Exploration for and Evaluation of Mineral Resources*
2. Certificate of Determination
3. Approval Certificate

Carolyn Cordery  
Chair NZASB

## **Stripping Costs in the Production Phase of a Surface Mine – Amendments to PBE IPSAS 12 *Inventories* | Amendment | 2025**

This amending Standard was made under section 12(a) of the Financial Reporting Act 2013 by the External Reporting Board after complying with section 22 of that Act.

This amending Standard is secondary legislation issued under the authority of the Legislation Act 2019.

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**Minimum Legislative Information**

(This information is not part of the standard)

**This Standard is secondary legislation issued under the authority of the Legislation Act 2019.**

<b>Title</b>	Stripping Costs in the Production Phase of a Surface Mine – Amendments to PBE IPSAS 12 Inventories   Amendment   2025
<b>Principal or amendment</b>	Amendment
<b>Consolidated version</b>	No
<b>Empowering Act and provisions</b>	This amending Standard was made under Section 12(a) of the <a href="#">Financial Reporting Act 2013</a> .
<b>Replacement empowering Act and provision</b>	Not applicable.
<b>Maker name</b>	External Reporting Board
<b>Administering agency</b>	External Reporting Board
<b>Date made</b>	[date] October 2025
<b>Publication date</b>	[date] October 2025
<b>Notification date</b>	[date] October 2025
<b>Commencement date</b>	This amending Standard takes effect [date] November 2025.
<b>End date</b>	Not applicable
<b>Consolidation as at date</b>	Not applicable
<b>Related instruments</b>	<a href="#">PBE IPSAS 12 Inventories</a>

**Explanatory note**

*This note is not part of the standard but is intended to indicate its general effect.*

This amending Standard amends PBE IPSAS 12 *Inventories*. The amendments are based on *Stripping Costs in the Production Phase of a Surface Mine* (Amendments to IPSAS 12) issued by the International Public Sector Accounting Standards Board (IPSASB) which in turn are aligned with IFRIC 20 *Stripping costs in the Production Phase of a Surface Mine*. This amending Standard provides interpretive guidance when to capitalise or expense costs incurred to remove waste material in surface mining operations.

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*This note is not part of the standard but is intended to indicate its general effect*

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**ISBN**

[XXX]

**Commencement and application**

*This note is not part of the standard but is intended to indicate its general effect.*

The [draft] amending Standard has a mandatory date of 1 January 2027, meaning it must be applied by Tier 1 and Tier 2 public benefit entities (PBEs) for accounting periods that begin on or after this date.

Application to an earlier accounting period is permitted for accounting periods that end after this [draft] Standard takes effect – refer to paragraphs 52.7 – 52.7.3 of this [draft] amending Standard.

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STRIPPING COSTS IN THE PRODUCTION PHASE OF A SURFACE MINE – AMENDMENTS TO  
PBE IPSAS 12 INVENTORIES | AMENDMENT | 2025

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STRIPPING COSTS IN THE PRODUCTION PHASE OF A SURFACE MINE – AMENDMENTS TO  
PBE IPSAS 12 INVENTORIES | AMENDMENT | 2025

## Part A – Introduction

This amending Standard sets out amendments to PBE IPSAS 12 *Inventories*. The amendments are based on *Stripping Costs in the Production Phase of a Surface Mine* (Amendments to IPSAS 12) issued by the International Public Sector Accounting Standards Board (IPSASB) which in turn are aligned with IFRIC 20 *Stripping costs in the Production Phase of a Surface Mine*. This amending Standard provides interpretive guidance when to capitalise or expense costs incurred to remove waste material in surface mining operations.

## Part B – Scope

**This Standard applies to Tier 1 and Tier 2 public benefit entities.**

Tier 2 public benefit entities are required to comply with all the requirements in this Standard.

## Part C – Amendments to PBE IPSAS 12 *Inventories*

Paragraphs 52.7 – 52.7.3, 52A-52C and Appendix A are added. The heading above paragraph 52.7 is amended. The headings above paragraphs 52.7 and 52A are added. New text is underlined and deleted text is struck through.

### **Effective Date Commencement, Application and Transition**

#### **Commencement and Application**

...

#### **Stripping Costs in the Production Phase of a Surface Mine**

52.7. The amending Standard *Stripping Costs in the Production Phase of a Surface Mine – Amendments to PBE IPSAS 12 Inventories*, issued in [month, year] added Appendix A. An entity shall apply those amendments in accordance with the commencement and application date provisions in paragraphs 52.7.1-52.7.3. An entity that applies those amendments to an ‘early adoption accounting period’ shall disclose that fact.

#### **When the amending Standard takes effect (section 27 Financial Reporting Act 2013)**

52.7.1 The amending Standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019.<sup>1</sup>

#### **Accounting period in relation to which the amending Standard commences to apply (section 28 Financial Reporting Act 2013)**

52.7.2 The accounting periods in relation to which this amending Standard commences to apply are:

- (a) For an **early adopter**, those accounting periods following, and including, the **early adoption accounting period**.
- (b) For any other reporting entity, those accounting periods following, and including, the first accounting period for the entity that begins on or after the **mandatory date**.

52.7.3 In paragraph 52.7.2:

**Early adopter** means a reporting entity that applies this amending Standard for an early adoption accounting period.

**Early adoption accounting period** means an accounting period of the early adopter:

<sup>1</sup> This footnote is not part of the Standard. The Standard was published on [date] and takes effect on [date].



STRIPPING COSTS IN THE PRODUCTION PHASE OF A SURFACE MINE – AMENDMENTS TO  
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- (a) That begins before the mandatory date but has not ended or does not end before this amending Standard takes effect (and to avoid doubt, that period may have begun before this amending Standard takes effect); and
- (b) For which the early adopter:
  - (i) First applies this amending Standard in preparing its financial report; and
  - (ii) Discloses in its financial report for that accounting period that this amending Standard has been applied for that period.

**Mandatory date** means 1 January 2027.

**Transition**

- 52A. An entity shall apply Appendix A to production stripping costs incurred on or after the beginning of the earliest period presented.
- 52B. As at the beginning of the earliest period presented, any previously recognised asset balance that resulted from stripping activity undertaken during the production phase ('predecessor stripping asset') shall be reclassified as a part of an existing asset to which the stripping activity related, to the extent that there remains an identifiable component of the ore body with which the predecessor stripping asset can be associated. Such balances shall be depreciated or amortised over the remaining expected useful life of the identified component of the ore body to which each predecessor stripping asset balance relates.
- 52C. If there is no identifiable component of the ore body to which that predecessor stripping asset relates, it shall be recognised in opening accumulated surplus or deficit at the beginning of the earliest period presented.

STRIPPING COSTS IN THE PRODUCTION PHASE OF A SURFACE MINE – AMENDMENTS TO  
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## **Appendix A**

### **Stripping Costs in the Production Phase of a Surface Mine**

*This Appendix is an integral part of PBE IPSAS 12.*

#### **Introduction**

- A1. In surface mining operations, entities may find it necessary to remove mine waste materials ('overburden') to gain access to mineral ore deposits. This waste removal activity is known as 'stripping'.
- A2. During the development phase of the mine (before production begins), stripping costs are usually capitalised as part of the depreciable cost of building, developing and constructing the mine. Those capitalised costs are depreciated or amortised on a systematic basis, usually by using the units of production method, once production begins.
- A3. A mining entity may continue to remove overburden and to incur stripping costs during the production phase of the mine.
- A4. The material removed when stripping in the production phase will not necessarily be 100 per cent waste; often it will be a combination of ore and waste. The ratio of ore to waste can range from uneconomic low grade to profitable high grade. Removal of material with a low ratio of ore to waste may produce some usable material, which can be used to produce inventory. This removal might also provide access to deeper levels of material that have a higher ratio of ore to waste. There can therefore be two benefits accruing to the entity from the stripping activity: usable ore that can be used to produce inventory and improved access to further quantities of material that will be mined in future periods.
- A5. This Appendix considers when and how to account separately for these two benefits arising from the stripping activity, as well as how to measure these benefits both initially and subsequently.

#### **Scope**

- A6. This Appendix applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ('production stripping costs').
- A7. This Appendix addresses the following issues:
- (a) Recognition of production stripping costs as an asset;
  - (b) Initial measurement of the stripping activity asset; and
  - (c) Subsequent measurement of the stripping activity asset.

#### **Application of PBE IPSAS 12 to Stripping Cost in the Production Phase of a Surface Mine**

##### *Recognition of production stripping costs as an asset*

- A8. To the extent that the benefit from the stripping activity is realised in the form of inventory produced, the entity shall account for the costs of that stripping activity in accordance with the principles of PBE IPSAS 12 *Inventories*. To the extent the benefit is improved access to ore, the entity shall recognise these costs as a non-current asset, if the criteria in paragraph A9 below are met. This Appendix refers to the non-current asset as the 'stripping activity asset'.
- A9. An entity shall recognise a stripping activity asset if, and only if, all of the following are met:
- (a) It is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the entity;
  - (b) The entity can identify the component of the ore body for which access has been improved; and
  - (c) The costs relating to the stripping activity associated with that component can be measured reliably.
- A10. The stripping activity asset shall be accounted for as an addition to, or as an enhancement of, an existing asset. In other words, the stripping activity asset will be accounted for as part of an existing asset.
- A11. The stripping activity asset's classification as a tangible or intangible asset is the same as the existing asset. In other words, the nature of this existing asset will determine whether the entity shall classify the stripping activity asset as tangible or intangible.

STRIPPING COSTS IN THE PRODUCTION PHASE OF A SURFACE MINE – AMENDMENTS TO  
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*Initial measurement of the stripping activity asset*

A12. The entity shall initially measure the stripping activity asset at cost, this being the accumulation of costs directly incurred to perform the stripping activity that improves access to the identified component of ore, plus an allocation of directly attributable overhead costs. Some incidental operations may take place at the same time as the production stripping activity, but which are not necessary for the production stripping activity to continue as planned. The costs associated with these incidental operations shall not be included in the cost of the stripping activity asset.

A13. When the costs of the stripping activity asset and the inventory produced are not separately identifiable, the entity shall allocate the production stripping costs between the inventory produced and the stripping activity asset by using an allocation basis that is based on a relevant production measure. This production measure shall be calculated for the identified component of the ore body and shall be used as a benchmark to identify the extent to which the additional activity of creating a future benefit has taken place. Examples of such measures include:

- (a) Cost of inventory produced compared with expected cost;
- (b) Volume of waste extracted compared with expected volume, for a given volume of ore production; and
- (c) Mineral content of the ore extracted compared with expected mineral content to be extracted, for a given quantity of ore produced.

*Subsequent measurement of the stripping activity asset*

A14. After initial recognition, the stripping activity asset shall be carried, in the same way as the existing asset of which it is a part, at either its:

- Cost less any accumulated depreciation or amortisation and less any accumulated impairment losses, or
- Revalued amount, being its fair value at the date of the revaluation, less any subsequent accumulated depreciation or amortisation and less any subsequent accumulated impairment losses.

A15. The stripping activity asset shall be depreciated or amortised on a systematic basis, over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity. The units of production method shall be applied unless another method is more appropriate.

A16. The expected useful life of the identified component of the ore body that is used to depreciate or amortise the stripping activity asset will differ from the expected useful life that is used to depreciate or amortise the mine itself and the related life-of-mine assets. The exception to this are those limited circumstances when the stripping activity provides improved access to the whole of the remaining ore body. For example, this might occur towards the end of a mine's useful life when the identified component represents the final part of the ore body to be extracted.

Paragraph BC6 and the related heading are added. For ease of reading, new text is not underlined.

## **Basis for Conclusions**

*This Basis for Conclusions accompanies, but is not part of, PBE IPSAS 12*

...

### **Stripping Costs in the Production Phase of a Surface Mine**

BC6. IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*, issued by IASB in October 2011, provided interpretive guidance when to capitalise or expense costs incurred to remove waste material in surface mining operations. The IPSASB subsequently made equivalent amendments to IPSAS 12 *Inventories*, by issuing amending standard *Stripping Costs in the Production Phase of a Surface Mine* in November 2024. The NZASB therefore made equivalent amendments to PBE IAS 12, by issuing *Stripping Costs in the Production Phase of a Surface Mine – Amendments to PBE IPSAS 12 Inventories* in [month, year].



## Memorandum

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**To:** John Kensington, Chair External Reporting Board

**Subject:** **Stripping Costs in the Production Phase of a Surface Mine – Amendments to PBE IPSAS 12 Inventories**

**Date:** 9 October 2025

**Prepared by:** Carolyn Cordery, Chair NZASB

**Through:** NZASB, Michelle Lombaard

**Copy:** Michelle Lombaard

**Action Required**

**For Information Purposes Only**

### Introduction<sup>1</sup>

1. In accordance with the protocols established by the XRB Board, the NZASB seeks your approval to issue *Stripping Costs in the Production Phase of a Surface Mine – Amendments to PBE IPSAS 12 Inventories*.
2. This amending standard is based on *Stripping Costs in the Production Phase of a Surface Mine (Amendments to IPSAS 12)*, issued by the International Public Sector Accounting Standards Board (IPSASB) in November 2024. This in turn is aligned with the requirements in IFRIC 20, *Stripping costs in the Production Phase of a Surface Mine*, issued by the International Accounting Standards Board (IASB) and adopted for New Zealand for-profit entities.
3. The amending standard adds an authoritative appendix to PBE IPSAS 12. This appendix provides interpretive guidance on when to capitalise or expense costs incurred to remove waste material in surface mining operations.
4. The appendix notes that there are two potential benefits accruing to the entity from stripping activities:
  - a) Providing access to ore bodies so these can be extracted. Those should be recognised as inventory in line with PBE IPSAS 12; and
  - b) Improved access to further quantities for future mining which should be recognised as non-current “*stripping activity asset*” if specified criteria are met.

If these benefits do not exist, those cost expenditures should be recognised as an expense.
5. The amending standard requires the *stripping activity asset* to be accounted for as an addition to, or as an enhancement of, an existing asset. In other words, the stripping activity

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<sup>1</sup> This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

asset shall be accounted for as part of an existing asset. The nature of that existing asset determines whether the stripping activity asset is classified as tangible or intangible.

6. The amending standard defines that *stripping activity asset* shall be initially measured at cost and specifies what costs expenditures the entity shall include in, and exclude from, the *stripping activity asset*. Subsequently, either the cost model or the revaluation model shall be applied.

### **Benefits to New Zealand constituents**

7. We are not aware of any public benefit entities (PBEs) in New Zealand currently directly engaged in mining activities. However, it may be possible that such PBEs will exist in future, given mining permits continue to be issued by New Zealand Petroleum and Minerals (NZP&M) and given the new forms of mining collaborations between local government and private companies are being introduced internationally. Also in the past, some for-profit entities within mixed groups have been involved in mining activities (e.g. Solid Energy New Zealand).
8. The key benefit of adopting these pronouncements into the PBE Standards is to future-proof the standards in a prospective manner in case PBEs do start engaging in mining activities in the future. The NZASB consider being preventative, rather than reactionary, provides greater certainty and clarity for preparers, reducing cost associated with uncertainty and enabling better decision-making when assessing the financial reporting implications of entering into these types of activities.
9. Introducing these changes to the PBE Standards will mean PBE entities who may start engaging in mining activities will benefit from:
  - Enhanced guidance, as there is no specific guidance on treatment of stripping cost in PBE Standards;
  - Alignment of PBE Standards and NZ IFRS Standards for mixed group entities including increased harmonisation with Australia (given Australian PBEs report under IFRS standards); and
  - Alignment of PBE Standards with IPSAS for entities which may want to enter global joint arrangements.
10. The amending standard is based on existing NZ IFRIC Interpretation and has very limited application in New Zealand. Therefore, while we cannot accurately gauge the costs which may arise from applying these proposals, we do not expect any PBE to incur significant costs by bringing these proposals into the PBE Standards.
11. We cannot accurately gauge the costs which may arise from applying these proposals. However, in our consultation, we specifically asked for constituents' views on the costs and benefits of either of the proposals, and no concerns were raised.
12. Given that the pronouncements are based on existing NZ IFRS Standards, have very limited application in New Zealand, and raised no objections in our consultation, we do not expect any PBE to incur significant costs by bringing these proposals into the PBE Standards.

## Due process

13. *Stripping Costs in the Production Phase of a Surface Mine – Amendments to PBE IPSAS 12 Inventories* is based on pronouncements previously issued by the IPSASB and IASB. Those amendments were subject to the IPSASB's and IASB's respective due processes.
14. The NZASB agreed not to comment on these proposals as they were being consulted upon by the IPSASB (ED 87, *Stripping costs in the Production Phase of a Surface Mine* (Amendments to IPSAS 12)).
15. The NZASB approved the NZASB ED 2025-8 *Stripping Costs in the Production Phase of a Surface Mine – Proposed amendments to PBE IPSAS 12 Inventories* for issue at its June 2024 meeting. The NZASB ED 2025-8 was published on the XRB's website on 1 July 2025, with comments closing on 30 September 2025. We informed the representatives of the Treasury and MBIE about the consultation and we included a link to the ED in July to September 2025 Accounting Alerts to raise awareness among New Zealand constituents.
16. The NZASB did not receive any comments from constituents on the ED. As a result, the final amending standard is identical to the proposals included in the ED.
17. The NZASB approved *Stripping Costs in the Production Phase of a Surface Mine – Amendments to PBE IPSAS 12 Inventories* in October 2025. The due process followed by the NZASB complied with the due process requirements established by the XRB Board and, in the NZASB's view, meets the requirements of section 22 of the Financial Reporting Act 2013.
18. In accordance with section 22(2) of the Financial Reporting Act 2013, the NZASB considers the standard does not include requirements that would result in the disclosure of personal information. Therefore, no consultation with the Privacy Commissioner is required.

## Consistency with XRB Financial Reporting Strategy

19. This amending standard will be applicable for Tier 1 and Tier 2 PBEs.
20. This amending standard does not introduce any new disclosure requirements. Therefore, no Reduced Disclosure Regime (RDR) considerations are necessary.
21. The issuance of this standard is consistent with the current Financial Reporting Strategy. It aligns with international standards issued by the IPSASB and is consistent with the Accounting Standards Framework.
22. Australia does not adopt IPSASB standards but apply IFRS standards to their public sector and not-for-profit entities. As the IPSASB requirements are based on the IFRS standards, the issuance of this standard will facilitate more harmonisation with IFRS standards and Australia.

## Commencement and application date

23. The *Stripping Costs in the Production Phase of a Surface Mine – Amendments to PBE IPSAS 12 Inventories* takes effect on the 28th day after the date of its publication under the Legislation Act 2019. The amending standard is expected to be published on 23 October 2025 and take effect on 20 November 2025.
24. An entity that is not an early adopter is required to apply the amending standard for accounting periods beginning on or after 1 January 2027.

25. Application is permitted for an 'early adoption accounting period' when that period begins before the mandatory date but has not ended or does not end before this amending standard takes effect. This is consistent with section 28 of the Financial Reporting Act 2013.

### **Other matters**

26. There are no other matters relating to the issue of this amending standard that the NZASB considers to be pertinent or that should be drawn to your attention.

### **Recommendation**

27. The NZASB recommends that you sign the attached certificate of determination and approval certificate on behalf of the XRB Board.

### **Attachments**

- *Stripping Costs in the Production Phase of a Surface Mine – Amendments to PBE IPSAS 12 Inventories*
- Certificate of Determination
- Approval Certificate

Carolyn Cordery  
Chair, NZASB

## Memorandum

**To:** NZASB Members  
**Meeting date:** 9 October 2025  
**Subject:** **Staff RDR Policy (Discussion 3)**  
**Date:** 25 September 2025  
**Prepared by:** Alex Stainer  
**Through:** Gali Slyuzberg, Nimash Bhikha, Michelle Lombaard

 **Action Required**
 **For Information Purposes Only**

### COVER SHEET

#### Project priority and complexity

<b>Project purpose</b>	To develop a Reduced Disclosure Regime (RDR) policy that guides the identification of disclosure concessions for Tier 2 for-profit entities.
<b>Cost/benefit considerations</b>	RDR is an important mechanism in the NZ accounting standards framework to ensure costs of disclosure do not outweigh benefits for non-publicly accountable entities. The development of a robust and consistent RDR policy will ensure cost/benefit considerations of proposed/introduced disclosure requirements are addressed in an appropriate and consistent manner.
<b>Project priority</b>	<b>Medium</b> Given the Board's decision not to adopt IFRS 19 <i>Subsidiaries without Public Accountability: Disclosures</i> in New Zealand, for completeness, we need to finalise a domestic approach to developing RDR concessions moving forward.

#### Overview of agenda item

<b>Project Status</b>	This is the third paper for the Board to consider; the staff RDR policy has been revised in response to feedback received from the August Board meeting, and we are now seeking agreement to recommend the approval of the policy to the XRB Board.  Previous papers can be accessed here: <ul style="list-style-type: none"> <li>• <a href="#">December 2024</a></li> <li>• <a href="#">August 2025</a></li> </ul>
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<b>Board action required</b>	<b>Medium complexity</b> <ul style="list-style-type: none"> <li>• <b>AGREE to RECOMMEND</b> the approval of the proposed staff RDR policy to the XRB Board</li> <li>• <b>AGREE to RECOMMEND</b> the content of the summary staff RDR policy for publication on the XRB website to the XRB Board</li> </ul>
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### Purpose and introduction<sup>1</sup>

1. This memo provides an overview of the changes that we have made to the draft RDR policy that was presented and discussed at the August 2025 Board meeting.
2. We have made revisions in response to the feedback received, and are now seeking agreement to recommend the approval of the policy to the XRB Board at the October 2025 Board meeting.

### Recommendations

3. The Board is asked to:
  - (a) **AGREE to RECOMMEND** the approval of the proposed staff RDR policy to the XRB Board; and
  - (b) **AGREE to RECOMMEND** the content of the summary staff RDR policy for publication on the XRB website to the XRB Board.

### Structure of this memo

4. This memo includes the following sections/appendices:
  - (a) [Revisions](#);
  - (b) [Summary of the staff RDR policy](#);
  - (c) [Appendix A](#): Feedback from the NZASB Members at the August 2025 meeting; and
  - (d) [Appendix B](#): Feedback received prior to the August 2025 Board meeting

### Revisions

5. At the August 2025 Board meeting, we received comments largely focused on improving clarity of the key disclosures in paragraph 20 of the [previous draft policy](#) (paragraph 19 in the updated draft) and ensuring that the policy is worded flexibly to ensure a key disclosure can be overturned by additional factors.
6. A summary of these points is noted below (please see [Appendix A](#) and [Appendix B](#) for more detail):

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- Update wording to note that key disclosures only indicate that the key principles for identifying Tier 2 disclosure requirements **may** be met, and will not necessarily, in themselves, result in a disclosure requirement.
  - The list of key disclosures is long and many of these disclosures are interconnected. More clarity would be useful in the description of item (2) of the key disclosures in paragraph 20 of the [previous draft policy](#) (which covered all key disclosures other than liquidity and solvency). To address these issues, consider separating the key disclosures into three categories (specifically splitting out (v) to (viii) into a separate category) to reflect the different nature of these elements.
  - Some concern that the key disclosures of liquidity, solvency and risks are inconsistent with existing RDR concessions (especially within NZ IFRS 7), and that costs of disclosure is an important factor in determining whether the key principles are met in these instances.
  - General agreement with including cost of disclosure and ‘gold plating’ (suggested it is replaced by the term legislative exemptions) as additional factors – noting that cost of disclosure is a key factor, but legislative exemptions is not necessarily a significant factor.
7. We have incorporated the above feedback into the current version of the draft staff policy and we have made several key updates, including:
- (a) Refinement of the key disclosures;
  - (b) More emphasis that the consideration of additional factors may overturn the indication of the key disclosures; and
  - (c) More emphasis that past decisions for RDR concessions, particularly for disclosures relating to liquidity, solvency and risk, should be considered (as part of the additional factor – cost of disclosure).
8. The table below outlines the specific updates made and the rationale for each change.

Updates	Rationale
<p><b>Key disclosures</b></p> <p>Based on the feedback received at the August meeting, where Board members wanted clarity on how item (2) in paragraph 20 of the <a href="#">previous draft policy</a> applies, we have moved to using three broad categories of key disclosures. See paragraph 19 of the updated draft policy.</p> <p>We have also:</p> <ul style="list-style-type: none"> <li>• Made some wording changes to simplify application of item (2), and revised the order of item (2) to now</li> </ul>	<p><i>Liquidity and solvency</i></p> <p>We have retained liquidity and solvency as a separate group of key disclosures (item 1 of paragraph 19 in the draft policy). While we understand there is some concern that the inclusion of this item could be inconsistent with past RDR decisions, we note that liquidity and solvency has always been a feature of the decisions of RDR – as it has been part of the criteria used in the development of IFRS for SMEs. Further, many of the liquidity/solvency disclosures that have existing RDR concessions, were granted on the basis the costs outweighed the benefits. Accordingly, we have emphasised these points in the consideration of the additional factor ‘cost of disclosure’.</p>

Updates	Rationale
<p>become item (3), and item (3) to become item (2); and</p> <ul style="list-style-type: none"> <li>Removed going concern from item (2).</li> </ul> <p>The key disclosures are:</p> <p>(1) Liquidity and solvency;</p> <p>(2) Information about the following types of transactions/events:</p> <p>(i) commitments and contingencies,</p> <p>(ii) impairment,</p> <p>(iii) related parties,</p> <p>(iv) subsequent events (3) Contextual information which is fundamental to understanding other types of transactions, balances and events, such as:</p> <p>(i) the nature, extent and characteristics of the type of transaction, balance or event, and the related accounting policies</p> <p>(ii) related estimates and judgements that influence how those types of transactions, balances and events are represented in the financial statements.</p> <p>(iii) other risks specific to the type of transaction, balance or event.</p>	<p><i>Commitments, contingencies, impairment, related parties, subsequent events</i></p> <p>We have also separated out disclosures relating to these specified types of transactions/events. As noted in the August meeting, item (2) of the previous draft policy was a mix of information relating to transactions/events and specific types of transactions/events, and it made more sense to have a discrete category to reflect these differences. We have also removed ‘going concern’ from this category, as it overlaps with the ‘liquidity and solvency’ category (item 1).</p> <p><i>Nature, risks, accounting policies, estimates and judgements</i></p> <p>Previously, item (2) in paragraph 20 of the <a href="#">previous draft policy</a> included both key disclosures that relate to any type of transaction/event (i.e. description of nature, risks, accounting policies, estimates and judgements), and key disclosures about specified transactions/events (e.g. commitments, impairment, etc.). In response to Board feedback, we have separated out the key disclosure on specified transactions/events, which are now shown as item (2) in paragraph 19, while the other group of disclosures relating to nature, accounting policies, etc. is now in item (3) of paragraph 19. We have also revised the description of item (3) to provide more clarity for application by:</p> <ul style="list-style-type: none"> <li>Replacing the reference to “information that aids users understanding of the operations of the entity” etc. to “contextual information which is fundamental to understanding other types of transactions, balances and events” etc. This allows for judgement which is not entity specific, and more directly outlines the information we want disclosed.</li> <li>Introducing a reference to ‘type’ of transaction/event, to clarify that it is not necessarily individual transactions/events that we are wanting to capture.</li> <li>Introducing a reference to ‘balance’ (in addition to ‘transaction’ and ‘event’) to provide additional clarity in application.</li> <li>Introducing a reference to ‘extent’ and ‘characteristics’ to ensure that this section of</li> </ul>

Updates	Rationale
	<p>key disclosures continues to capture information that shows how significant the type of transaction, balance or event is to an entity.</p> <p>The core principle of this item remains – where transactions, balances or events are significant to an entity, users generally want information about the nature and risks, and information about the accounting policy, estimates and judgements involved in accounting for it.</p> <p>We continue to not include any entity specific references such as ‘significant’ or ‘material’ for this category of key disclosures, on the basis we cannot determine when a disclosure would be significant or material to a Tier 2 entity when setting Tier 2 disclosure requirements. We do not consider this an issue, given that materiality judgement overrides specific disclosure requirements in accounting standards. We expect that, in general, we would require Tier 2 entities to provide the disclosures in this category for any type of transaction/event covered by new Tier 1 standards/amendments, as such disclosures would generally meet the key principles of the policy for material transactions/events – and, when individual Tier 2 entities apply these disclosure requirements, they will determine if a given type of transaction/event is material, and therefore whether to provide the disclosure in order to meet user needs.</p> <p>For example, the IASB amending standard <i>Amendments to the Classification and Measurement of Financial Instruments</i> introduced disclosures relating to instruments with contingent features. One of these disclosure requirements was to provide a qualitative description of the nature of the contingent event. We expect that this type of disclosure requirement meets item (3) in paragraph 19 of the RDR policy, and on the basis, it has met the key principles, and is included as a disclosure requirement for Tier 2 entities. This means that, if this information is material to the entity, the information will be disclosed – which then meets users’ needs (and if it is not applicable or material then it is not disclosed – which also meets users’ needs).</p>
<b>Consideration of additional factors</b>	We agree with reflections that the key disclosures simply indicate that the key principles may be met,

Updates	Rationale
<p>At the NZASB August meeting, a concern was expressed that the consideration of additional factors – particularly cost of disclosure – is not given enough weight in the policy in comparison to the key disclosures.</p> <p>We have made it clearer that consideration of the additional factors is important to concluding whether the key principles are met and that key disclosures do not necessarily prioritise over these factors by:</p> <ul style="list-style-type: none"> <li>• Emphasising key disclosures indicate a disclosure <b>may</b> meet the key principles (paragraph 14 and 15 of the policy); and</li> <li>• Emphasising that consideration of additional factors must support the indication that key principles <b>may</b> be met (paragraph 17 and 22(c) of the policy).</li> </ul> <p>In addition, we have made the changes described below in response to the Board’s feedback.</p> <p><i>Cost of disclosure</i></p> <p>In paragraph 31 of the policy, we have explicitly referred to the precedent of having RDR concessions for certain disclosures relating to liquidity, solvency and risks in NZ IFRS.</p> <p>In paragraph 30 of the policy, we have removed emphasis on the IASB cost/benefit analysis and instead placed the emphasis on staff to consider if cost of disclosure could be an issue for Tier 2 entities.</p> <p>We have added a new paragraph (paragraph 33) that outlines staff shall consult on expected costs of the proposed disclosures and consider this feedback as part of the due process.</p> <p><i>Legislative exemptions</i></p>	<p>and do not necessarily mean that the disclosure should be required.</p> <p>We also understand that certain disclosures relating to liquidity, solvency and risks, have historically been granted a RDR concession on the basis it did not meet the cost-benefit threshold.</p> <p>However, we continue to retain the view that in many circumstances we do not need to be analysing cost considerations in more detail. For those areas of concern, we have explicitly named them in the policy to ensure more thought is given to the cost of these disclosures and to ensure staff are considering previous RDR decisions as part of their analysis.</p> <p>We consider this an appropriate balance as the principles established by the key disclosures mean we should not necessarily become beholden to past RDR decisions in all circumstances.</p>

Updates	Rationale
<p>We have replaced the term 'gold plating' with 'legislative exemptions'.</p> <p>We have revised wording in paragraphs 34-38 of the policy to be clear staff may not be able to identify all legislative exemptions.</p>	
<p><b>Appendix A</b></p> <p>Appendix A has been updated for the revised key disclosures and consideration of additional factors.</p>	<p>These have been updated to reflect changes made in line with the above.</p> <p>Further, given feedback on consideration of cost, we have updated the guidance within Appendix A to follow more closely with the approach in the main body of the policy (i.e. determining first whether cost needs to be considered in more detail, and then some high-level considerations that may help reveal associated costs in preparing and including a disclosure).</p>

### Summary of the staff RDR policy

9. We have now developed a summary of the policy that communicates to our stakeholders the decision-making framework used in developing RDR concessions.
10. This summary briefly outlines:
  - (a) Key principles;
  - (b) Steps in the decision-making framework;
  - (c) Key disclosures;
  - (d) Consideration of additional factors; and
  - (e) Associated process diagram.
11. We note that this summary will go through further internal review in respect of its final form/presentation. Therefore, we are seeking agreement to recommend the content of the summarised staff RDR policy to the XRB Board for publication on the XRB website (rather than publishing the full staff policy on the website).

### Questions for the Board

- Q1. Does the Board have any comments or feedback on the contents of this memo or the accompanying documents - the Staff RDR policy and its Summary?
- Q2. Subject to final amendments being reviewed by the Chair, does the Board AGREE to RECOMMEND the approval of the staff RDR policy to the XRB Board?
- Q3. Subject to final amendments being reviewed by the Chair, does the Board AGREE to RECOMMEND the content of the summary staff RDR policy to the XRB Board for publishing on the XRB website?

**Attachments**

Staff policy: Development of for-profit RDR concessions

Policy summary (for website)

## Appendix A: Feedback from NZASB Members at the August 2025 Board Meeting

NZASB meeting August 2025 ([link to the paper](#))

1. In the August 2025 NZASB meeting, we received the following feedback on the proposed staff RDR policy:

### (a) Key principles

- Paragraph 16 – the previous version suggested key disclosures *may* be included, while the updated wording implies key disclosures *will* be included. This should be softened to allow flexibility, indicating key disclosures may be required.

### (b) Key disclosures

- The list of key disclosures in paragraph 20 is too long and interconnected, which could lead to inconsistent conclusions and overemphasis in certain areas. It should be shortened to remain practical and focused. However, a Board Member also noted that the key disclosures themselves are sensible and important to consider, and should not be deleted.
- In paragraph 20, the wording in item (2) of the key disclosures is unclear. The list of key disclosures in item (2) is a mix of *information about* transactions and events (e.g. the nature of a transaction) and *specified transactions and events* (e.g. commitments, impairment, etc.). Clarify what is required and whether key disclosures (i) to (iv) apply to all transactions/events. Consider restructuring into three broad categories instead.
- Including liquidity and solvency conflicts with existing RDR requirements in NZ IFRS 7.
- Going concern overlaps with liquidity and solvency.
- The phrase "aiding users' understanding" is too broad/vague. Is there a threshold (e.g. significantly aids) to allow for judgement – otherwise any information could be considered as aiding understanding. Consider rephrasing in the context of being able to change the decision of the user.

### (c) Decision making framework

- Paragraph 23(c)(ii) – the wording implies key disclosures override cost considerations/additional factors. Be clear that key disclosures may not result in a disclosure requirement, particularly when it is not supported by the additional factors.

### (d) Cost of disclosure

- Paragraph 30 – Make it clear that IASB cost-benefit analysis is aimed at a different level to Tier 2 entities and that a NZ focused assessment may still need to be made.

### (e) Legislative exemptions/gold plating



- Legislative exemptions should be considered but it does not need to be a significant factor.
- Use a plain English term instead of 'gold plating' (like 'legislative exemptions')
- Considering that the UK FRC's process for identifying disclosure requirements refers to 'gold plating': Ask UK FRC staff how they manage varying legislative requirements when identifying necessary disclosures.
- Paragraph 36 - Update the wording to reflect an intention to consider legislation, while acknowledging that staff cannot be across all legislative requirements.

## Appendix B: Feedback received prior to the August 2025 Board Meeting

NZASB meeting December 2024 ([link to the paper](#))

2. In the December 2024 NZASB meeting, we received the following feedback on the proposed staff RDR policy:

### (a) Approach

- General agreement with using an approach that justifies the introduction of disclosure requirements for Tier 2 entities, rather than an approach that justifies a concession.
- Update terminology to match the approach (i.e. avoid using the term ‘concession’ and instead use ‘reduced disclosure requirement’)
- General agreement with the application of the policy to future disclosure requirements rather than immediate application to all Standards.
- General agreement that, where an existing Standard is amended to reflect IASB amendments, we will consider whether Tier 2 disclosures in the Standard are in line with the policy, and whether further action is required.
- Address harmonisation with Australia in the policy/approach and include an ability to at least consider Australia’s requirements where it may be needed.

### (b) Key Disclosure Areas

- General agreement on the importance and relevance of key disclosure areas for Tier 2 for-profit entities
- General agreement on using key disclosure areas as indicators for introducing disclosure requirements
- Concerns about inconsistency between the outcomes of applying the draft policy and previous RDR decisions based on cost of disclosure. Especially regarding the volume of disclosure requirements for risks that have been granted concessions previously.
- Concern with using the term ‘materiality’ to delineate key disclosure areas given it is an entity-specific term.

### (c) Consideration of additional factors

- Include cost of disclosure when considering additional factors, as it is critical for Tier 2 for-profit entities, but only on an ‘as needed’ basis, given IASB have to an extent done a cost/benefit analysis for disclosure requirements.
- Acknowledge IFRS for SMEs as the principles for developing RDR concessions are based on IFRS for SMEs

- Referring to IFRS 19 *Subsidiaries without Public Accountability* is not as relevant, given entities using this Standard generally are larger and more complex than Tier 2 for-profit entities, and it has more disclosure requirements than current RDR.

(d) **Diagrams**

- Rework diagrams to make these easier to read (currently too small).
- Start by explaining the rebuttable presumption.
- In diagram 2, add another arrow for when staff need to reapply policy and re-enter the process.

(e) **Other**

- Test the policy against current standards if policy and see where differences arise
- Clarify how the policy handles a partial concession on a disclosure requirement, similar to the current RDR paragraphs.

*Post NZASB meeting December 2024 feedback*

3. Post-meeting we received more detailed feedback from a Board Member noting:

(b) **Approach**

- Dislike of using a rebuttable presumption – it is also counterintuitive for a standard taker (and for our current RDR) since it suggests we are discarding IFRS as a starting point.
- The terminology used is inconsistent with the recommended conceptual approach. Justifying disclosure requirements implies a 'zero-base' approach, making 'concession' terminology inaccurate.
- Since we are suggesting a 'zero-base' approach, then we should be prepared to add Tier 2 disclosure requirements beyond the requirements in IASB standards, noting that the key principles of the policy would support this approach.
- Prefer a 'concession approach' where each disclosure in the ED is examined and the reduced disclosure requirement criteria are applied.
- Recognition and measurement concessions, along with the disclosure concession approach, should be reconsidered.
- The policy should acknowledge that Tier 2 users are a subset of those users for Tier 1 entities with 'public accountability' – otherwise we should be prepared to add Tier 2 disclosures beyond what is required in IFRS/for Tier 1 entities.
- Draft the policy based on current research and evidence, rather than relying on research from the 2015-2018 project.

- If we believe in the criteria, we should be revisiting all historical disclosure requirements.
- (c) **Key disclosure areas**
- Should call these 'key disclosures' rather than 'key disclosure areas' as the term is unclear.
  - Avoid using the term 'material' as it is entity-specific and not applicable at a standard-setting level.
- (d) **Consideration of additional factors**
- There should not be a need to refer to IFRS 19 or the precedent of previous RDR decisions if we are happy with key disclosures listed in the policy.
  - Using precedent from previous decisions is untenable due to the work load required to understand all concessions granted across all Standards.
- (e) **Other**
- Address specific comments in use of terminology and drafting within the policy.

*XRB meeting December 2024*

4. During the December XRB meeting, the XRB acknowledged the progress on developing the RDR policy. They emphasised there is an opportunity to review the recognition and measurement principles to ensure they are suitable for Tier 2 for-profit entities.

**Application of the initial draft policy**

*NZ IFRS 18*

5. The draft RDR policy was applied to the disclosure requirements introduced by NZ IFRS 18.
6. NZ IFRS 18 is distinct in that it serves as a general presentation and disclosure standard. In practice, most of the disclosure requirements outlined in NZ IFRS 18 did not align with the key disclosure areas identified in the policy. As a result, the key disclosure areas alone were insufficient to indicate necessary disclosures, requiring significant judgement in the consideration of additional factors.
7. We observed that mapping disclosure requirements to key disclosure areas was not always straightforward, and the policy may benefit from more information about what is encompassed within some of the key disclosure areas (such as liquidity and solvency).
8. It was challenging to assess the relative importance of the disclosure requirements brought in to IFRS 19. Some of these requirements conflicted with other relevant considerations, requiring significant judgement.

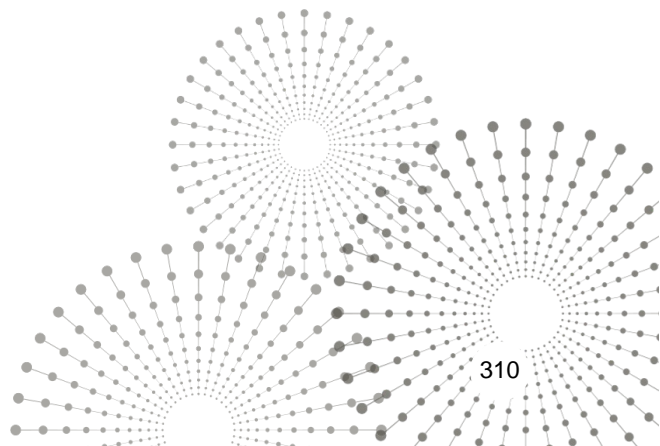
9. Some presentation requirements - such as the 'third balance sheet' – may also function as disclosure requirements. The policy does not address how dual-purpose requirements should be treated (if differently).
10. We also noted that disclosure requirements relating to going concern are not currently listed among the key disclosure areas in the policy. Given their significance, we recommend that they are included.

*Contracts referencing nature-dependent electricity*

11. The draft RDR policy was applied to the disclosure requirements introduced by *Contracts Referencing Nature-dependent Electricity*. No RDR concessions were approved by the NZASB in relation to these requirements.
12. No specific issues were raised regarding the application of the policy. In practice, it was effective in helping to identify the relevance of the disclosure requirements.

# Staff Policy: Developing RDR Concessions for Tier 2 For-Profit Entities

October 2025



**Contents of this policy**

This policy includes the following sections:

- 1) [Purpose and introduction](#)
- 2) [Scope](#)
- 3) [Policy statement](#)
- 4) [Current accounting standards framework](#)
- 5) [Key principles](#)
- 6) [Decision-making framework](#)
- 7) [Procedures](#)
- 8) [Basis for conclusions](#)
- 9) [Consultation](#)
- 10) [Responsibilities](#)
- 11) [Maintenance](#)
- 12) [Appendix A – completing the analysis](#)
- 13) [Appendix B – operational guidance](#)

## Purpose and introduction

1. The current New Zealand Accounting Standards Framework provides that Tier 1 entities must prepare financial statements in accordance with NZ IFRS in the for-profit sector and PBE Standards in the public and not-for-profit sectors. Unlike Tier 1 for-profit entities, Tier 2 for-profit entities do not have public accountability, and the information needs of users of a Tier 2 entity's financial statements differ from, and are less than, the needs of users of a Tier 1 entity's financial statements. If the disclosure requirements for Tier 1 and Tier 2 entities were the same, it would result in unnecessary costs for Tier 2 entities (i.e. costs that may not be sufficiently justified by benefits). Tier 2 entities are therefore currently subject to the Reduced Disclosure Regime (RDR) which provides concessions to disclosure requirements within NZ IFRS and PBE Standards.
2. This policy provides a standardised approach for developing RDR concessions for Tier 2 for-profit entities. Although judgement is required in applying this policy, it is designed so that different individuals should generally reach similar conclusions about the disclosure requirements for Tier 2 for-profit entities.

## Scope

3. This policy outlines the key principles to developing RDR concessions for Tier 2 for-profit entities and may be applied whenever:
  - (a) an IASB Exposure Draft (ED) for a new or amending standard is issued and includes proposed disclosure requirements.
  - (b) the IASB issues a final new or amending standard that includes disclosure requirements.
  - (c) a for-profit domestic project is commenced and a domestic ED is being developed that includes disclosure requirements.
4. This policy is intended to be applied only to future disclosure requirements. Existing RDR concessions will not be revisited using this policy unless agreed in individual circumstances with the NZASB.

## Policy Statement

5. The RDR concessions developed will offer relief from disclosure requirements where it is considered that the information is not relevant for meeting the needs of users of the financial statements of Tier 2 for-profit entities, or where the benefits do not outweigh the costs of providing the disclosures.
6. Staff will follow the approach and due process outlined in this and wider XRB policies to ensure RDR concessions are developed to a high quality and in a consistent manner for Tier 2 for-profit entities.
7. The procedures undertaken will be based on the key principles stated in this policy, and undertaken commensurate to the level of applicability the proposed disclosures will have to Tier 2 for-profit entities in New Zealand (i.e. staff effort is balanced with the materiality/level of applicability of the disclosure requirements).



### Current accounting standards framework

8. The policy is predicated on the current Accounting Standards Framework (ASF). The XRB has decided on a RDR which requires that Tier 2 for-profit entities are subject to the same recognition and measurement requirements as NZ IFRS (i.e. Tier 1) but with reduced disclosures.
9. Therefore, this policy provides only for concessions to disclosure requirements of full NZ IFRS. Recognition, measurement and presentation requirements of full NZ IFRS shall always be maintained for Tier 2 for-profit entities, and no concessions will be granted for these requirements.

### Current RDR

10. The current RDR is a concession approach. That is, disclosure concessions are granted from full NZ IFRS (as practically done by tagging relevant disclosure requirement concessions with an asterisk), as opposed to the separate introduction of disclosure requirements for Tier 2 for-profit entities.
11. This policy does not amend the concession approach from an 'end user' perspective, i.e. from the perspective of those who apply or refer to our standards. However, this policy directs staff to first and foremost consider why the proposed disclosure requirements are relevant for users of Tier 2 for-profit entities' financial statements and whether the benefits outweigh the costs of providing the disclosures, and to then justify the introduction of disclosure requirements for Tier 2 for-profit entities (rather than justifying the granting of a concession).

### Harmonisation with Australia

12. The current ASF provides that Tier 2 accounting requirements are harmonised with Australia as appropriate<sup>1</sup>. This is on the basis that adopting an RDR approach that is common with Australia enhances harmonisation and eliminates Tier 2 reporting differences, which reduce compliance costs for companies with trans-Tasman reporting obligations. Importantly, our current approach means the recognition and measurement requirements remain aligned between New Zealand and Australian Tier 2 for-profit entities.
13. However, since the XRB established the ASF, the Australian Accounting Standards Board (AASB) developed a separate simplified disclosure standard for Australian Tier 2 entities (AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*). Given the approach to developing AASB 1060, the introduction of that standard has meant our disclosure regimes for Tier 2 for-profit entities have diverged. Consequently, while the AASB's decisions regarding Tier 2 disclosure concessions are considered when developing Tier 2 disclosure requirement/concessions in New Zealand (when this information is available), the Tier 2 disclosure requirements in New Zealand and Australia may differ. Nevertheless, the continued alignment in recognition and measurement requirements ensures that the core financial reporting principles remain harmonised.

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<sup>1</sup> [Accounting Standards Framework](#) on page 11 paragraph 27.

## Key principles

14. The key principles for identifying which disclosure requirements may be applicable to Tier 2 for-profit entities are:
  - (a) the information provided by the disclosures in the financial statements meets the needs of users of Tier 2 financial statements; and
  - (b) the expected benefits of the disclosures for these users exceed the expected costs for Tier 2 entities to provide them.
15. To practically identify which disclosure requirements meet the key principles in paragraph 14, staff shall consider the list of key disclosures in paragraph 19. When a disclosure requirement reflects one of these key disclosures, this as an indicator that the disclosure requirement may meet the key principles.
16. The key principles noted in paragraph 14 are consistent with principles used in the ongoing development of IFRS for SMEs, which has historically underpinned previous RDR decisions.

## Key disclosures

17. This guidance refers to key disclosures. These disclosures generally meet the needs of users of Tier 2 for-profit entities and generally the benefits of providing these disclosures outweigh the costs. However, staff will utilise judgement when assessing whether individual disclosure requirements meet the key principles, even if they relate to key disclosures as there might be factors (as listed in paragraph 22) that indicate they do not.
18. These key disclosures practically indicate that the key principles may be met, and that the disclosure requirement may be applicable for Tier 2 for-profit entities.
19. The key disclosures are disclosure requirements that relate to:
  - (1) Liquidity and solvency;
  - (2) Information about the following types of transactions/events:
    - (i) commitments and contingencies.
    - (ii) impairment
    - (iii) related parties
    - (iv) subsequent events
  - (3) Contextual information which is fundamental to understanding other types of transactions, balances and events, such as:
    - (i) the nature, extent and characteristics of the type of transaction, balance or event, and the related accounting policies;
    - (ii) related estimates and judgements that influence how those types of transactions, balances and events are represented in the financial statements;
    - (iii) other risks specific to the type of transaction, balance or event.

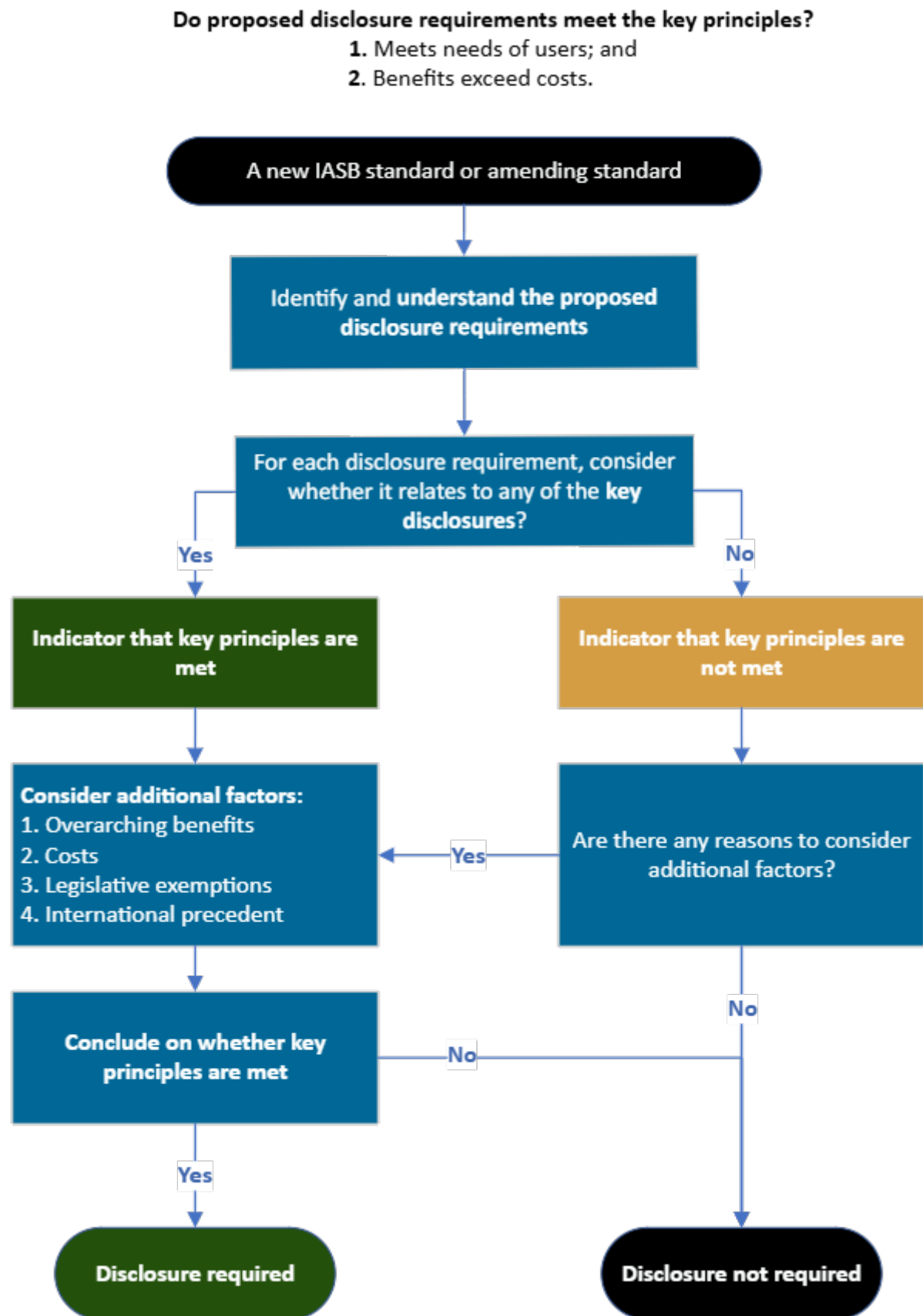
## Decision-making framework

20. This section outlines the decision-making framework staff shall use when analysing disclosure requirements to determine whether they should be applicable for Tier 2 for-profit entities. Staff shall use this approach to identify whether the proposed disclosures reflect the [key principles in paragraph 14](#).
21. While the current RDR is a concession approach and disclosure concessions are granted from full NZ IFRS, staff shall practically apply an approach that justifies why a disclosure requirement should be applicable for Tier 2 for-profit entities. For each disclosure requirement, staff shall apply the approach outlined below to justify why a disclosure requirement should be applicable for Tier 2 entities and accordingly which disclosure requirements can be granted a concession.
22. The approach taken shall include the following:
- (a) Understand the group of disclosure requirements and what they are intending to communicate to users and why;
  - (b) Identify whether the proposed disclosure requirements relate to the key disclosures;
  - (c) Where applicable, consider additional factors and whether they support the indication that the key principles may be met. These additional factors include:
    - (i) Overarching expected benefits of the group of proposed disclosure requirements to users of New Zealand Tier 2 for-profit entities;
    - (ii) Expected costs of reporting/preparing the specific disclosure in the context of Tier 2 for-profit entities (see *Expected costs of disclosure*).
    - (iii) Other New Zealand legislation/regulation that includes an exemption for substantially similar or identical disclosures (see *Legislative exemptions*);
    - (iv) International precedent and whether there are applicable factors to consider in those requirements, including:
      - i. disclosure requirements contained in IFRS for SMEs and IFRS 19 *Subsidiaries without Public Accountability: Disclosures*, and the IASB's rationale for inclusion.
      - ii. harmonisation with Australia<sup>2</sup> for the specific group of proposed disclosure requirements where relevant.
  - (d) Conclude on whether the disclosure meets the key principles in this policy.

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<sup>2</sup> Staff may informally consult with the AASB as appropriate.

Diagram 1



*Initial indication disclosure meets key principles*

23. Where proposed disclosure requirements reflect key disclosures listed in this policy, there is an initial indicator that the disclosure requirement may be relevant for Tier 2 for-profit entities.
24. Staff shall then consider the additional factors noted in paragraph 22(c) and decide whether the proposed disclosure requirement is justified for Tier 2 for-profit entities. Staff shall use judgement to determine whether the additional factors support the introduction of the disclosure requirement.
25. Where the additional factors on balance do not support the indication that the disclosure should be required, the disclosure requirement should be granted a concession.

*Initial indication disclosure does not meet key principles*

26. Where proposed disclosure requirements do not reflect key disclosures listed in this policy, there is no indication that the disclosure is relevant for Tier 2 for-profit entities.
27. Staff shall consider whether there is any other reason to consider additional factors listed in paragraph 22(c) before making a final conclusion. For instance, whether any conditions (environmental or otherwise) exist that would mean the proposed disclosure requirements are of high interest to users. Otherwise, staff can at this point conclude that the disclosure requirement shall be granted a concession without progressing their analysis any further.
28. In instances where staff have considered there is a reason to analyse additional factors, there must be strong support from these additional factors to consider overturning the indicator. These factors shall display the key principles are met before staff conclude the disclosure requirement is instead relevant.

*Expected costs of disclosure*

29. Staff are **not** required to undertake a detailed cost assessment for every proposed disclosure requirement, given a 'key disclosure' in this policy indicates the benefits of a disclosure may outweigh the costs for Tier 2 for-profit entities.
30. However, cost remains an important factor in determining relevant disclosure concessions for Tier 2 for-profit entities. In certain cases, it may be relevant to assess the costs associated with a specific disclosure requirement in more detail, particularly in the context of New Zealand Tier 2 for-profit entities. While the IASB perform cost-benefit analyses when introducing new disclosure requirements, their focus is on entities with public accountability, which are also typically larger and more economically significant than Tier 2 for-profit entities.
31. Staff should therefore use judgement to determine when a more detailed cost assessment is necessary for a specific disclosure requirement. This is especially relevant for 'key disclosures' that may have previously been granted RDR concessions due to not meeting the cost-benefit threshold. Examples include disclosure requirements related to liquidity, solvency, and risks specific to a type of transaction or event under NZ IFRS 7 *Financial Instruments: Disclosures*.

32. In making this initial judgement, staff should assess the complexity of the type of transaction/event and the volume/complexity of information required to complete the disclosure requirement. Additional cost analysis may be necessary where disclosures are subjective, require extensive data analysis, or involve significant calculations. Staff may also refer to the rationale behind previous RDR decisions for similar disclosure requirements to inform their judgement.
33. As part of the consultation process, staff shall also ask stakeholders to provide feedback on the costs of the proposed disclosure requirements. This input shall be considered in the final cost assessment and as part of the due process for determining the disclosure requirements applicable to Tier 2 for-profit entities.

#### *Legislative exemptions*

34. A Tier 2 entity may be subject to other legislation/regulations that may require the disclosure of information within an annual report. This legislation may also provide for an exemption to the disclosure of this information for certain entities or in certain circumstances. These exemptions may take several different forms, such as an 'opt out' clause or a specific criteria clause. For instance, Part 12, s211 of the Companies Act 1993, provides for the inclusion of certain disclosures within the annual report by companies. Some of these disclosures can be opted out of if 95% of the shareholders of the company agree that the report does not need to include this information.
35. Where a disclosure exemption is provided in other legislation/regulation, it should be a relevant factor in considering the disclosure requirements in the financial statements for Tier 2 for-profit entities. The existence of such exemptions in legislation/regulations indicates that, for the purpose of the legislation/regulation, it was considered that in some circumstances the costs could outweigh the benefits of providing the disclosure.
36. Accordingly, where a disclosure requirement is substantially similar or identical to a requirement in other legislation/regulation for which there is an exemption, this may indicate that the disclosure requirement does not meet the key principles in this policy. Staff will use judgement to determine whether the key principles are met. For example, if a legislative/regulatory exemption is likely to apply to a small subset of Tier 2 entities, or if the exemption is likely to apply in very limited circumstances, then the disclosure requirement may still meet the key principles in this policy.
37. Tier 2 for-profit entities are subject to a range of legislation. Staff shall undertake a process to understand whether any legislation may require disclosure of information similar to the proposed disclosure requirements (and related exemptions) – for example, by looking at legislation that commonly apply to Tier 2 for-profit entities (e.g. the Companies Act 1993 or the FMC Act 2013) and seeking input from NZASB Members during meetings. However, it is acknowledged that given the range of applicable legislation staff may not be able to identify all legislative exemptions that may apply.
38. Staff shall consider whether as part of the consultation it would be useful to seek feedback on whether the proposed disclosure requirements are excessive based on requirements or exemptions under other legislation or regulations.

*Further information*

39. For further information on completing each of the above steps, please refer to [Appendix A](#).
40. For additional operational guidance refer to [Appendix B](#).

**Procedures***Consistency with existing disclosure concessions*

41. Upon commencement of a for-profit project from the accounting standards team work plan, staff should consider at a high level whether existing disclosure requirements for Tier 2 for-profit entities within the applicable standard/standards are consistent with the key disclosures outlined in this policy. If potential inconsistencies are identified, staff shall form a recommendation to the NZASB as to whether this policy shall be applied to revisit the existing disclosure requirements/concessions in question.

*IASB final standard/amendments or IASB ED*

42. Upon the IASB issuing a final standard/amending standard, staff shall apply this policy to commence the development of RDR concessions for approval and subsequent consultation.
43. By exception, staff may consider whether it is appropriate and practicable to propose and consult on disclosure requirements for Tier 2 for-profit entities alongside the consultation of the IASB ED itself.
44. If proposed disclosure requirements/concessions were exposed during the consultation on the initial IASB ED:
  - (a) Staff shall consider whether this policy shall be applied again when actual disclosure requirements have changed from the initial ED. Staff shall consider the significance of the changes and due process requirements before concluding whether to re-apply the process and re-expose the proposed disclosure requirements/concessions.
  - (b) Staff shall also consider whether any other wider environment changes have occurred that may mean Tier 2 disclosure requirements/concessions previously exposed are no longer appropriate, regardless of whether there have been any changes in requirements in the final IASB standard/amending standard. Staff shall then consider whether to re-expose proposed RDR concessions.

**Basis for conclusions**

45. In certain circumstances it is appropriate that the NZASB issues a Basis for Conclusions in respect to a decision on granting or not granting a RDR concession for disclosure requirements.
46. A Basis for Conclusions shall be developed and issued in line with standard due process requirements, if the following circumstances apply:
  - (a) Existing RDR concessions are being overturned;<sup>3</sup>

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<sup>3</sup> Existing RDR concessions would only be considered after agreement with the NZASB.

- (b) Submission/s are received disagreeing with the proposed disclosure requirements/concessions during the formal consultation period, regardless of whether the NZASB approves the relevant disclosure requirements/concessions;
  - (c) Where proposed disclosure requirements/concessions are a topic of substantial debate with the NZASB; or
  - (d) As agreed with the NZASB<sup>4</sup>.
47. A Basis for Conclusions will not be developed or issued when none of the circumstances in the paragraph above apply. This will be appropriate where there have not been submissions disagreeing with the proposals during the formal consultation period, and the Board was in general agreement during the discussion and approval of the respective disclosure requirements/concessions.
48. All due process requirements must be met for the drafted Basis for Conclusions, including appropriate Board approval. Staff shall ensure that the Board approve the relevant Basis for Conclusions as appropriate. Staff shall use judgement (based on the relevant circumstances of the drafted Basis for Conclusions) and in agreement with the NZASB set out a clear method for approval of the Basis for Conclusions. This may mean approval occurs:
- (a) in meeting; or
  - (b) in meeting subject to final amendments being approved via Chair review; or
  - (c) via circular resolution post meeting.

### **Consultation**

49. Staff shall follow standard due process requirements for consulting on proposed disclosure requirements/concessions for Tier 2 for-profit entities. It is expected that a consultation will be commensurate with the expected impact of the proposals.
50. Staff shall document their approach to the consultation and inform the NZASB of the proposed approach. Staff shall ensure the consultation material clearly explains the rationale for proposed disclosure requirements and disclosure concessions.

#### *Consultation required in all circumstances*

51. Consultation will be undertaken in all circumstances, even including circumstances where:
- (a) no concessions are proposed for any of the disclosure requirements, or
  - (b) all disclosure requirements are proposed as concessions.

### **Responsibilities**

52. Staff are responsible for completing an initial analysis of all proposed disclosure requirements. It is expected that all analysis is peer reviewed and approved by the appropriate level staff.

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<sup>4</sup> Staff or the NZASB may consider a particular decision requires further explanation via the Basis for Conclusions



53. Staff shall summarise the analysis and provide this summary to the NZASB in all circumstances where reasonable and in an appropriate manner (even if this information is included as an appendix).
54. Staff shall provide a recommendation to the NZASB in all circumstances where reasonable, clearly articulating in a summary board paper the staff position in context of the approach set out in this policy.
55. Staff shall perform all necessary outreach and consultation as discussed with the NZASB and in line with standard due process.

### **Maintenance**

56. The contents of this policy will be reviewed with sufficient regularity to ensure the approach remains relevant. If critical components underpinning this policy are revised (such as the ASF), then this policy must be immediately reviewed, with appropriate action conducted before continued application.
57. If all else remains constant, it is recommended that the policy is reviewed, at minimum, every 5 years to ensure the key principles, key disclosures and listed additional factors remain appropriate.
58. As part of conducting a review of this policy, staff shall consider whether it is necessary to consult with stakeholders to understand the effectiveness of this policy in ensuring the benefits and costs of reporting are balanced. It is expected that staff will keep the NZASB informed.
59. If additional information comes to light that may help revise or further refine our policy for developing disclosure requirements/concessions, staff shall use judgement in determining whether ad hoc changes are proposed to this policy between reviews.

## Appendix A

### Completing the analysis

The following tables provide a breakdown of relevant questions and considerations that may help staff to analyse the disclosures and to reach a conclusion. The questions outlined in the tables should be considered and as appropriate documented in staff analysis as guided by this policy.

**Table 1 - Understand the group of disclosure requirements and what they communicate to users and why**

Approach	Considerations may include
Identify the disclosures, related guidance, and disclosure objectives that require consideration.	<ul style="list-style-type: none"> <li>Is it a disclosure or a presentation requirement?</li> <li>Is there a disclosure objective?</li> <li>Is there guidance that specifies how to achieve a disclosure objective?</li> <li>Is there cross referencing to another Standard where there is an existing RDR concession?</li> <li>See operational guidance section in Appendix B for additional considerations</li> </ul>
Consider what the overall disclosure is related to and what it is aiming to achieve.	<ul style="list-style-type: none"> <li>Consider the background and reason for the disclosure</li> <li>What does the disclosure address?</li> <li>What are the benefits of the disclosure?</li> <li>Does it provide useful information for users in context of their access to information from the entity?</li> </ul>
Group the disclosures by themes	<ul style="list-style-type: none"> <li>What does each part of the disclosure ask for and why?</li> <li>What does each part of the disclosure make an entity accountable for?</li> </ul>
Consider whether the omission of one part of the disclosure impacts the objective of the whole disclosure	<ul style="list-style-type: none"> <li>Are the components of the disclosure inter-related and only meaningful in context of the whole?</li> <li>What is sacrificed by the omission of a component of disclosure?</li> <li>How will this impact users?</li> </ul>

**Table 2 – Analyse the disclosure in terms of the listed key disclosures**

Approach	Considerations may include
When considering whether a disclosure requirement relates to liquidity and solvency:	Does the disclosure provide any information that helps a user understand a Tier 2 for-profit entities short-term and long-term obligations. This may

	<p>include information about short-term or long-term cash flows or asset/debt management.</p> <p>This may also include information about going concern.</p>
<p>When considering whether a disclosure requirement relates to:</p> <ul style="list-style-type: none"> <li>• Commitments and contingencies</li> <li>• Impairment</li> <li>• Related parties</li> <li>• Subsequent events</li> </ul>	<p>Consider the main features of each of these types of transactions/events.</p> <p>Does the transaction/event accounted for potentially impact any of these types of transactions/events?</p> <p>Does the disclosure provide additional information that would help users have a better understanding of the entities:</p> <ul style="list-style-type: none"> <li>• Commitments and contingencies</li> <li>• Impairment</li> <li>• Related parties</li> <li>• Subsequent events</li> </ul>
<p>When considering whether a disclosure requirement relates to contextual information which is fundamental to understanding the entity's other transactions, balances and events:</p> <p>Consider whether there is a requirement that at a high-level outlines:</p> <ul style="list-style-type: none"> <li>• the nature, extent and characteristics of a type of transaction, balance and event, and related accounting policy</li> <li>• related estimates and judgements that influence how the type of transaction, balance, or event is represented in the financial statements.</li> <li>• other risks specific to a type of transaction, balance or event.</li> </ul>	<p><b>Level of information</b></p> <p>Overall, consider the level of information required by the disclosure requirement, and use judgement to determine whether it provides contextual information fundamental to understand the type of transaction, balance or event or whether it provides more detail than is necessary in the Tier 2 context.</p> <p><b>Nature, extent, characteristic, and related accounting policy</b></p> <p>Nature is the substance of a type of transaction, balance or event that allows a user to understand what a transaction, balance or event broadly is.</p> <p>Extent is information that provides context to understand the volume, the amount, or the financial effects of the type of transaction, balance or event in respect of the entity's operations.</p>

	<p>Characteristics are those specific features of the type of transaction, balance or event that make it individual or different to other types of transactions, balances, or events even where they may have a similar nature, and which may mean it could lead to different outcomes or accounting treatments.</p> <p>Overall, these types of disclosure requirements should provide the basis for a user to understand what the type of transaction, balance or event is, how significant it is in the context of an entity's operations, and how it is currently accounted for.</p> <p><b>Related estimates and judgements</b></p> <p>Information about related estimates and judgements may help users understand the assumptions and changes year on year in accounting for the type of transaction, balance or event.</p> <p>These disclosures may require information about estimates or judgements involved in accounting for the type of transaction, balance or event that are fundamental to the recognition or measurement of the type of transaction, balance or event as represented in the financial statements.</p> <p><b>Other risks</b></p> <p>Other risks that are specific to a type of transaction, balance or event, are those explicit risks that an entity is now exposed to that may negatively impact either the carrying amount or future cashflows related to the transaction, balance or event. This sub-category would generally include disclosures that directly refer to risks specific to a type of transaction, balance or event.</p> <p>These disclosures may ask for a description or an analysis of factors (such as credit, currency, price, performance risks) that could influence the outcomes of a particular type of transaction/event or the amounts represented by the type of transaction/event in the financial statements.</p>
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**Table 3 – Consider additional factors**

<b>Approach</b>	<b>Considerations may include</b>
<p><b>Overarching expected benefit</b></p> <p>Consider the overarching expected benefit that the group of disclosures provide for users of Tier 2 for-profit financial statements.</p>	<p>What is the rationale for these disclosures and why are they important? Is the disclosure fundamental to an understanding of NZ Tier 2 entities and its operations in the NZ context? Is the disclosure of a general nature that applies to many transactions or events? Or is it very specific to a certain situation?</p> <p>Does the absence of one part of the group of disclosure requirements impact the effectiveness/usefulness of the group of disclosures?</p> <p>Will the benefits be far reaching or do the group of disclosures only have narrow applicability for NZ Tier 2 entities? Will it commonly impact many entities? Is the disclosure commonly occurring across many entities or a particular industry?</p>
<p><b>Expected cost of disclosure</b></p> <p>Undertake a simple assessment of the requirements of the disclosure to decide whether the disclosure requirement, needs a more detailed consideration of cost.</p> <p>Then, as required, consider the extent of the costs in a more detailed manner.</p>	<p><b><u>Does it require a more detailed consideration of cost?</u></b></p> <p>Is the nature of the disclosure consistent with other disclosures granted RDR concessions provided in the same or other standards?</p> <p>Is the disclosure complex, or does it require analysis of a large volume of information or is it subject to high levels of estimation or calculation or subjectivity?</p> <p><b><u>Extent of the costs</u></b></p> <p>Does providing the disclosure require additional work beyond what is already required for the recognition, measurement and presentation involved in the accounting treatment of the transaction/event?</p> <p>Does the disclosure require a significant amount of support that may be difficult or time consuming or costly for NZ Tier 2 entities to prepare?</p> <p>Can the disclosure be audited without undue cost to support in the context of NZ tier 2 entities?</p>

	<p>Is there a strong precedent for this type of disclosure being granted a RDR concession in other Standards (due to cost/benefit reasons)? Is the disclosure similar to or consistent with other disclosures in the current standard – are these disclosures already subject to a RDR concession in the current standard? Is there a reason why this disclosure necessitates a different treatment?</p>
<p><b>Legislative exemptions</b></p> <p>What other legislation/regulation may apply that require disclosure of substantially similar or identical information? Are there exemptions provided for in the legislation/regulation?</p>	<p>Consider the Companies Act 1993, and the FMC Act 2013 – are there any other legislation or regulation that may capture these requirements?</p> <p>How applicable is the relevant legislation/regulation to Tier 2 for-profit entities? Would it apply to a broad subset of Tier 2 for-profit entities?</p> <p>Is the information requirement substantially similar or identical to a requirement of legislation? Does the proposed disclosure requirement capture a portion or all of the information requirement?</p> <p>What is the rationale for the requirement in legislation – is it similar to the rationale for the proposed disclosure requirement?</p> <p>Is there an exemption for this requirement provided in the same legislation/regulation? How broadly could the exemption be applied by Tier 2 for-profit entities?</p> <p>Is the exemption an ‘opt out’ clause or other circumstantial clause – how do these exemptions correlate to features of Tier 2 for-profit entities?</p>
<p><b>International precedent</b></p> <p>Is the disclosure included in or proposed to be added to IFRS for SMEs or IFRS 19?</p> <p>Consider our harmonisation policy with Australia and how this impacts our proposed disclosure requirements.</p>	<p>For what reason was the disclosure requirement included in IFRS for SMEs or in IFRS 19?</p> <p>What do the Basis for Conclusions for the ED note about the proposed disclosures and why they are being included in IFRS for SMEs or IFRS 19?</p> <p>Given the difference in entities targeted by IFRS 19 – could we draw a different conclusion than the IASB for Tier 2 entities?</p>

	<p>Do we hold a different opinion to the IASB and why?</p> <p>Whether the AASB is expected to require the disclosure for Tier 2 entities? And whether Australia has made any proposals to date? Why are Australia proposing certain disclosure requirements – are they considering harmonisation with NZ for this set of disclosure requirements?</p>
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## Appendix B

### Operational Guidance

This operational guidance is used to facilitate the application of the RDR decision-making framework.

#### *Presentation vs Disclosure*

The RDR decision-making framework does not involve amending the presentation (the term presentation is sometimes used interchangeably with the term classification) requirements in NZ IFRS. It is concerned only with reducing the disclosure burden for Tier 2 for-profit entities. Sometimes judgement is required as to whether a particular requirement relates to presentation or disclosure.

The following guidance is used to distinguish between presentation and disclosure.

- (a) Presentation requirements are requirements that specify, for the current and the comparative period, the broad structure of financial statements including the basis of classification of items.
- (b) Requirements addressing additional line items, disaggregation and subclassification of line items on the face of the primary financial statements are considered to be presentation requirements.
- (c) Specifications relating to additional line items and disaggregation to be disclosed in the notes are treated as matters of disclosure.
- (d) Where a standard provides an option for disclosure of information either on the face of the financial statements or in the notes, this is considered a disclosure requirement and is assessed against the RDR decision-making framework to determine which disclosures, if any, Tier 2 for-profit entities are required to make.

#### *Disclosure Objective/Principle*

Some NZ IFRSs include paragraphs that require an entity to generally disclose information to meet a stated objective. These paragraphs are then typically followed by paragraphs that require specific disclosures to meet that stated objective. In these circumstances, the paragraphs that outline the specific disclosures required to meet the stated objective are subjected to analysis under the RDR decision-making framework and the paragraphs that require an entity to generally meet a stated disclosure objective may need to be reduced for Tier 2 entities. Some NZ IFRSs include paragraphs that describe a disclosure objective but do not specifically require an entity to disclose information within that paragraph. These paragraphs are generally not disclosure requirements so they may not need to be reduced for Tier 2 entities.

#### *Guidance*

The disclosure requirements in NZ IFRS are often accompanied by guidance which is intended to assist entities in making those disclosures.

In general, guidance for disclosures that are required to be provided by Tier 2 entities is kept. However, where the guidance is about the presentation of information “in a tabular format



unless another format is more appropriate” it is reduced to provide Tier 2 entities with flexibility on how information is presented.

#### *Partial concessions*

In circumstances where a disclosure requirement contains multiple disclosures and staff deem that only part of the requirement should be required for Tier 2 for-profit entities, staff may recommend a partial concession is granted.

In these circumstances, staff may need to draft a New Zealand RDR paragraph to state the specific disclosure requirement applicable for Tier 2 for-profit entities, while granting a concession to the original disclosure requirement.

#### *Disclosures that are Encouraged*

Where an NZ IFRS encourages, rather than requires, a disclosure, Tier 2 for-profit entities are not required to provide that information.

#### *Reconciliations*

A reconciliation required under NZ IFRS is not required to be prepared by Tier 2 for-profit entities as these do not relate to the key disclosures. However, the individual items in that reconciliation are assessed against the RDR decision-making framework to determine which items, if any, Tier 2 for-profit entities are required to make.

#### *Cross-referencing in Standards*

Sometimes a disclosure or guidance in a NZ IFRS includes a cross-reference to disclosure requirements in another NZ IFRS. Where the cross-referencing is specific (for example, a disclosure in NZ IFRS 3 *Business Combinations* includes a reference to paragraph 85 of NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*), both paragraphs are either kept or reduced for Tier 2 entities. Cross-referencing can be of a general nature. The NZASB has decided that where the cross-referencing is of a general nature, this is kept in NZ IFRS for Tier 2 entities.

# Policy Summary

## Developing RDR Concessions for Tier 2 for-profit entities

The XRB provides disclosure concessions to Tier 2 for-profit entities to balance the costs and benefits of reporting - considering that, unlike most Tier 1 for-profit entities, Tier 2 for-profit entities do not have 'public accountability' as defined in XRB A1 (e.g. they have not issued shares or bonds to the public, etc.) and tend to be more closely held than Tier 1 entities. This summary sets out the key principles and the decision-making framework used for determining which Tier 1 disclosure requirements should be applicable to Tier 2 for-profit entities. Our policy is applied whenever the IASB issue a new or amending standard that contains disclosure requirements.

### Key principles

The key principles for identifying disclosure requirements applicable to Tier 2 for-profit entities are:

1. the information provided by the disclosures in the financial statements meets the needs of users of Tier 2 financial statements; and
2. the benefits of the disclosures for these users exceed the costs for Tier 2 entities to provide them.

Users of Tier 2 financial statements include lenders, other creditors, and existing and potential investors. Many Tier 2 entities are closely held, and as a result, shareholders often can demand additional information to a greater extent than shareholders of Tier 1 entities where necessary for their decision making.

### Decision-making framework

To determine if the key principles are met, we apply a decision-making framework that:

- Considers whether a disclosure requirement relates to a key disclosure (as outlined below)
- Assesses whether other relevant factors (as outlined below) support the disclosure requirement
- Concludes on whether the key principles are met based on the considerations above.

### Key disclosures

**Key disclosures practically indicate when the key principles may be met, and that the disclosure requirement may be applicable for Tier 2 for-profit entities. These include disclosures that provide:**

- (1) Information about liquidity and solvency;
- (2) Information about commitments, contingencies, impairment, related parties, or subsequent events.
- (3) Contextual information fundamental to understanding other types of transactions, balances or events; such as their nature, extent, characteristics, related accounting policies (including estimates and judgements), and any other specific risks.

### Other factors

**Other relevant factors we consider when assessing the disclosure requirement include:**

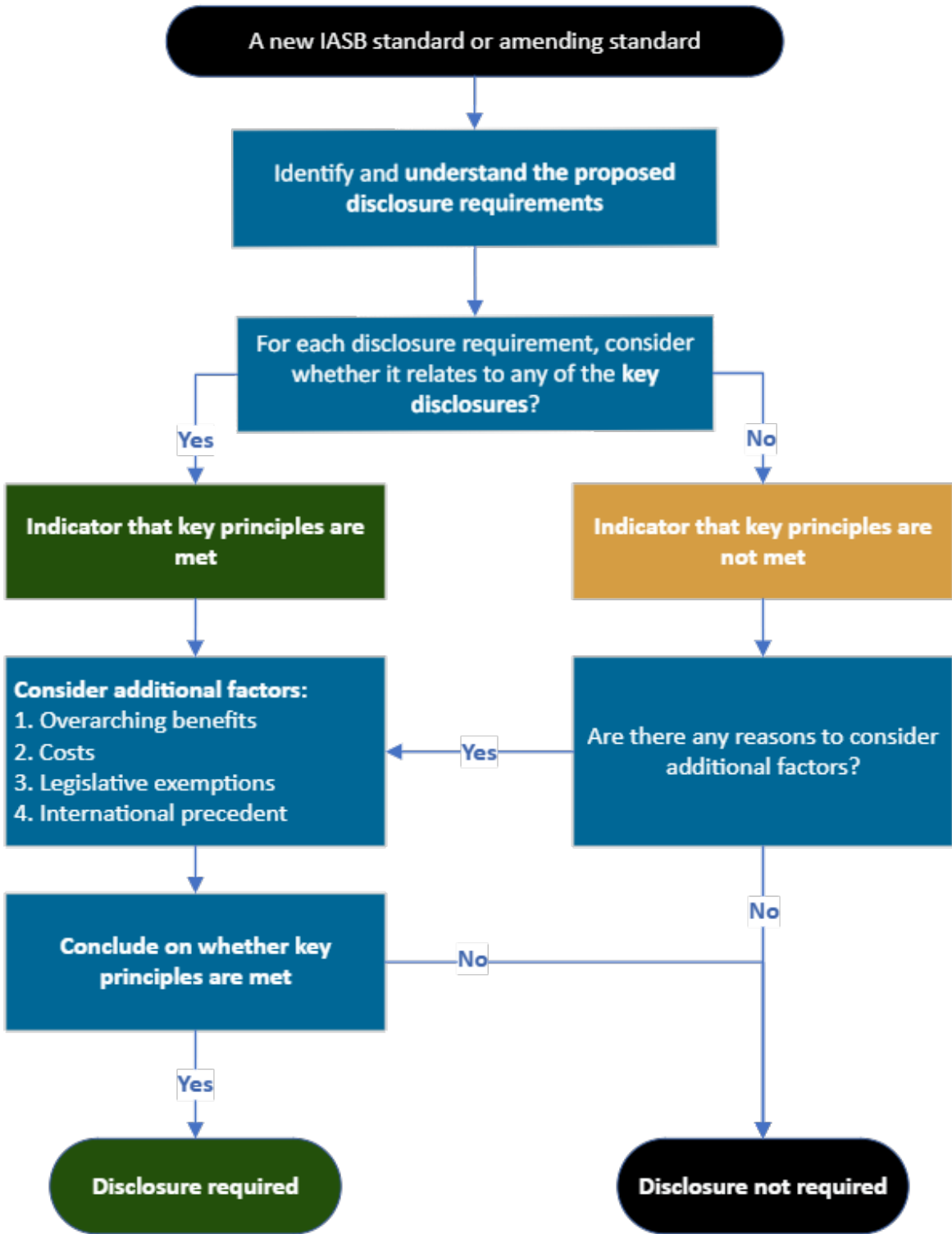
- (1) Expected benefits to users of the group of disclosure requirements being introduced.
- (2) Expected costs of reporting and preparing the specific disclosure.
- (3) Whether other New Zealand legislation/regulations include an exemption for substantially similar or identical disclosures.
- (4) International alignment, including harmonisation with Australia (where relevant), or with disclosure requirements of IFRS for Small and Medium-sized Entities (SMEs) and IFRS 19 *Subsidiaries without Public Accountability: Disclosures* issued by the International Accounting Standards Board.

**Decision-making framework (continued)**

The process can be summarised by the following diagram:

**Do proposed disclosure requirements meet the key principles?**

- 1. Meets needs of users; and
- 2. Benefits exceed costs.



## Memorandum

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**To:** NZASB Members

**Meeting date:** 9 October 2025

**Subject:** **PBE Policy Approach – Contracts Referencing Nature-Dependent Electricity**

**Date:** 26 September 2025

**Prepared by:** Gali Slyuzberg

**Through:** Michelle Lombaard

**Action Required**

**For Information Purposes Only**

### Purpose<sup>1</sup>

1. The purpose of this memo is to consider the application of the [PBE Policy Approach](#) to *Contracts Referencing Nature-dependent Electricity—Amendments to IFRS 9 and IFRS 7*.

### Recommendations

2. We recommend that the Board **AGREES to wait for the IPSASB** to finalise its project relating *Contracts Referencing Nature-Dependent Electricity—Amendments to IFRS 9 and IFRS 7*, rather than developing proposed amendments to PBE Standards at this time.

### Background

3. In December 2024, the IASB issued *Contracts Referencing Nature-dependent Electricity—Amendments to IFRS 9 and IFRS 7*. The amendments relate to nature-dependent electricity contracts, where an entity is exposed to variability in electricity amounts due to uncontrollable natural conditions. Such contracts are often structured as ‘power purchase agreements’ (PPAs).
4. The IASB’s amendments aim to help entities to better reflect the effects of the contracts described above on the financial statements, by:
  - (a) clarifying how the ‘own use’ exception in IFRS 9 *Financial Instruments* applies to such contracts;
  - (b) permitting hedge accounting if these contracts are designated as hedging instruments; and
  - (c) adding disclosure requirements into IFRS 7 *Financial Instruments: Disclosures*.
5. As noted in paragraph 27(a) of the [PBE Policy Approach](#), one of the ‘triggers’ for considering amendments to PBE Standards is “an IFRS Standard that the IPSASB has used as the basis for

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<sup>1</sup> This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Accounting Standards, IFRIC® Interpretations and IASB® papers).

an IPSAS is changed”. The IASB’s *Contracts Referencing Nature-dependent Electricity* amended IFRS 9 and IFRS 7, which were used by the IPSASB as a basis for developing IPSAS 41 *Financial Instruments* and IPSAS 30 *Financial Instruments: Disclosures*.

6. At its April 2025 meeting, the NZASB approved for issue the amending standard *Contracts Referencing Nature-Dependent Electricity—Amendments to NZ IFRS 9 and NZ IFRS 7*, with a mandatory date of 1 January 2026. However, the application of the PBE Policy Approach was not considered at that meeting.
7. At the NZASB August 2025 meeting, as part of the annual review of the application of the PBE Policy Approach, staff asked the Board to consider the application of the PBE Policy Approach with respect to *Contracts Referencing Nature-Dependent Electricity*. Staff noted that the IPSASB has an active project to consider incorporating these IASB amendments into IPSAS – and recommended waiting for the IPSASB to finalise that project, rather than developing amendments to PBE Standards at this time.
8. The Board asked staff to check whether waiting for the IPSASB would cause concerns from a mixed group perspective. Pending this information, the decision on the application of the PBE Policy Approach was deferred to the NZASB October meeting.

### Application of the PBE Policy Approach

9. As a reminder: The [PBE Policy Approach](#) says that when the IASB amends an IFRS Accounting Standard that the IPSASB has used as a basis for an IPSAS, and if the IPSASB has a project relating to the IASB amendments, the NZASB would generally wait for the IPSASB to complete its work, unless there is a need for urgent action in New Zealand. There is also a rebuttable presumption that limited-scope amendments issued by the IASB would not be incorporated into PBE Standards ahead of the IPSASB.

#### Extract from the PBE Policy Approach

29. In considering a change to an NZ IFRS that relates to a topic for which there is an existing PBE Standard based on an IPSAS, the NZASB will consider the factors in the development principle in determining whether to initiate a development of the PBE Standards. Particular emphasis in this case needs to be placed on the IPSASB’s likely response to the change, including whether the IPSASB is expected to address the change in an acceptable timeframe.

30. Given the rebuttable presumption in paragraph 22 that any IPSAS issued by the IPSASB will be included in the PBE Standards, there are considerable potential costs and risks associated with “getting ahead of the IPSASB”. Therefore, the NZASB needs to decide whether to develop a PBE Standard ahead of the IPSASB or to wait for the IPSASB’s response. If the issue is already on the IPSASB’s active work plan, the NZASB would normally wait for the IPSASB to complete its work, unless the NZASB is of the view that there is an urgent need for action in New Zealand or the NZASB is of the view that the IPSAS is unlikely to be appropriate in the New Zealand context.

31. Furthermore, in the case of limited-scope amendments or amendments to an NZ IFRS that the NZASB considers are minor, there is a rebuttable presumption that the change should not be incorporated into the equivalent PBE Standard in advance of the IPSASB considering the change. This is because minor amendments are less likely to meet the cost-benefit test, particularly when the potential costs and risks associated with getting ahead of the IPSASB are taken into account. However, the NZASB may issue an exposure draft that proposes the incorporation of these minor amendments into the equivalent PBE Standards at the same time as the IPSASB issues an exposure draft that proposes the incorporation of these minor amendments into IPSAS.

10. As noted at the NZASB August meeting, the IPSASB has an active project to consider *Contracts Referencing Nature-Dependent Electricity*. Information on relevant timing is included below.

- (a) In March 2025, the IPSASB agreed to include *Contracts Referencing Nature-Dependent Electricity*, as well as other IASB narrow-scope amendments, in an Exposure Draft as part of its project *Improvements to IPSAS, 2025*.
- (b) The related IPSASB ED is expected to be approved for consultation in **March 2026**. The IPSASB expects to approve the final pronouncement in **September 2026**.
- (c) If we wait for the IPSASB per our usual practice, we would consult on similar amendments to PBE Standards around **Q1 2027**, and issue the final amendments in early **Q2 2027**, likely with a mandatory date of **1 January 2028** (early application permitted). **Voluntary early application may be available to PBEs with 30 June 2027 year-ends.**
11. To date, we have not received feedback from stakeholders urging to introduce *Contracts Referencing Nature-Dependent Electricity* into PBE Standards ahead of the IPSASB.
12. As requested by the NZASB in August, we have asked Treasury staff whether there is urgency to introduce *Contracts Referencing Nature-Dependent Electricity* into PBE Standards, from a mixed group perspective, in the context of the NZ Government’s consolidated financial statements. At the time of writing, we have not yet received a response.
13. We have also considered the NZASB’s question internally, as shown in the table below.

**Table 1: Mixed group considerations**

Key elements of the for-profit amendments (excl. disclosures)	Mixed group considerations
<p>The amendments clarify how the ‘own use’ exception in NZ IFRS 9 applies to contracts referencing nature-dependent electricity, based on the entity’s expected electricity usage requirements.</p> <p>We understand that these amendments would generally apply to physical PPAs – which will no longer need to be accounted for as derivatives under NZ IFRS 9 if they are for ‘own use’.</p>	<p>We understand that physical PPAs are not common in New Zealand. On this basis, we do not expect these amendments to cause significant or widespread mixed group challenges in New Zealand during the time when there are no equivalent PBE amendments.</p>
<p>The amendments permit hedge accounting for contracts referencing nature-dependent electricity, if such contracts are designated as hedging instruments. Specifically, the amendments permit an entity to designate as a hedged item a variable nominal amount of forecast electricity transactions that is aligned with the variable amount of nature-dependent electricity expected to be delivered by the generation facility as referenced in the hedging instrument.</p> <p>The amendments would be applicable to virtual PPAs (and some physical PPAs that are not for ‘own use’). The amendments are expected to make it easier to designate PPAs in a hedging relationship under NZ IFRS 9 – potentially making hedge accounting for PPAs more common.</p>	<p>If a for-profit subsidiary of a PBE applies hedge accounting to its PPAs under these amendments, the PBE parent may need to reverse the hedge accounting treatment on consolidation while there are no equivalent PBE amendments.</p> <p>However: If we wait for the IPSASB to finalise its related pronouncement, the PBE amendments <b>may</b> be available for voluntary early adoption for 30 June 2027 year-ends. If that is achieved, and if for-profit subsidiaries of PBEs do not early-adopt the for-profit amendments before their mandatory date (1 January 2026), then the PBE parent would be able to apply hedge accounting at the same time as its for-profit subsidiary – and mixed group issues would not arise.</p> <p>If we do not manage to issue the PBE amendments before 30 June 2027, or if for-profit subsidiaries of PBEs early-adopt the for-profit amendments, then mixed group challenges could arise. However, such challenges would be short-lived (one year if one of the abovementioned eventualities occur, or two years if both occur).</p> <p>We also note that, since hedge accounting is a policy choice, a for-profit subsidiary of a PBE that becomes eligible for hedge accounting under the for-profit amendments will be able to defer applying hedge accounting until equivalent PBE amendments are available, thereby avoiding mixed group issues.</p>

14. While we acknowledge the possibility of mixed group challenges in certain circumstances, we also note that developing a PBE ED based on *Contracts Referencing Nature-Dependent Electricity* ahead of the IPSASB may not result in significant timing benefits in any case. Given current staff resources and project commitments, if we were to draft an ED ahead of the IPSASB, the ED approval would likely happen at the **April 2026** NZASB meeting. The resulting timeline, compared to the timeline resulting from waiting for the IPSASB, is shown below.

**Table 2: Timeline – moving ahead of the IPSASB vs waiting for the IPSASB**

Time	IPSASB activity	Expected NZ activity – moving ahead of IPSASB	Expected NZ activity – waiting for the IPSASB
Mar 2026	IPSASB consults on ED <i>Improvements to IPSAS, 2025</i> – incl. <i>Contracts Referencing Nature-Dependent Electricity</i> (and other IASB amendments)	NZ <b>consultation on IPSASB ED <i>Improvements to IPSAS, 2025</i></b> (until Jun 2026)	NZ <b>consultation on IPSASB ED <i>Improvements to IPSAS, 2025</i></b>
Apr 2026		NZASB <b>approves PBE ED <i>Contracts Referencing Nature-Dependent Electricity</i></b>	
May 2026		NZ <b>consultation on PBE ED <i>Contracts Referencing Nature-Dependent Electricity</i></b>	
Jun 2026			
July 2026			
Aug 2026		NZASB <b>approves PBE amendments <i>Contracts Referencing Nature-Dependent Electricity</i></b> . Mandatory date likely 1 Jan 2028 (early application permitted).	
Sep 2026	IPSASB approves <i>Improvements to IPSAS, 2025</i>		
[...]			
Dec 2026		NZASB <b>approves PBE ED <i>Omnibus Amendments to PBE Standards 2026</i></b> , based on <i>Improvements to IPSAS, 2025</i> – <b>potentially including changes to recent PBE amendments</b> based on <i>Contracts Referencing Nature-Dependent Electricity</i> , to align with IPSASB modifications if necessary.	NZASB <b>approves PBE ED <i>Omnibus Amendments to PBE Standards 2026</i></b> – including <i>Contracts Referencing Nature-Dependent Electricity</i> , plus other amendments in <i>Improvements to IPSAS 2025</i>
Jan 2027		NZ <b>consultation on PBE ED <i>Omnibus Amendments to PBE Standards 2026</i></b> (see above)	NZ <b>consultation on PBE ED <i>Omnibus Amendments to PBE Standards 2026</i></b> – incl. <i>Contracts Referencing Nature-Dependent Electricity</i>
Feb 2027			
Mar 2027			
[...]			
Apr 2027		NZASB <b>approves PBE amendments <i>Omnibus Amendments to PBE Standards 2026</i></b> (see above)	NZASB <b>approves PBE amendments <i>Omnibus Amendments to PBE Standards 2026</i></b> – incl. <i>Contracts Referencing Nature-Dependent Electricity</i> . Mandatory date likely 1 Jan 2028 (early application permitted).

15. As shown in Table 2 above:
- If we move ahead of the IPSASB, the consultation on our PBE ED is likely to overlap with the IPSASB's consultation on *Improvements to IPSAS 2025*, which includes amendments based on *Contracts Referencing Nature-Dependent Electricity*.
  - The difference between the expected issue date of PBE amendments based on *Contracts Referencing Nature-Dependent Electricity* if we move ahead of the IPSASB, and the expected issue date of 'omnibus' PBE amendments based on *Improvements to IPSAS 2025* (including *Contracts Referencing Nature-Dependent Electricity*), is less than a year.
  - If we move ahead of the IPSASB, the mandatory date in New Zealand may ultimately be the same than if we wait for the IPSASB.
  - There is a risk (albeit a small one) that, if we move ahead of the IPSASB, it may be necessary to make further amendments to PBE Standards with respect to *Contracts Referencing Nature-Dependent Electricity*, to align with possible IPSASB modifications.
  - Moving ahead of the IPSASB with *Contracts Referencing Nature-Dependent Electricity* (but not with the rest of the amendments in *Improvements to IPSAS, 2025*) means that we have two consultations on narrow-scope amendments to PBE Standards within a short period of time – whereas there would be only one consultation if we wait for the IPSASB.
16. Based on the considerations in this memo, we reiterate our recommendation to **wait for the IPSASB** to finalise its project relating to *Contracts Referencing Nature-Dependent Electricity*, rather than developing PBE amendments at this time.

Elements of the Development Principle in the PBE Policy Approach	Application to <i>Contracts Referencing Nature-dependent Electricity—Amendments to NZ IFRS 9 and NZ IFRS 7</i>
Whether the potential development will lead to higher quality financial reporting by public sector PBEs and NFP PBEs, including public sector PBE groups and NFP PBE groups, than would be the case if the development was not made.	<b>Yes.</b> For PBEs that enter into contracts covered by the amendments (and PBEs that have controlled entity that enter into such contracts), the amendments would help to better reflect the financial effects of these contracts in the financial statements.
Whether the benefits of a potential development will outweigh the costs, considering as a minimum: <ol style="list-style-type: none"> <li>relevance to the PBE sector as a whole</li> <li>relevance to the NFP or public sector sub-sectors</li> <li>coherence</li> <li>the impact on mixed groups</li> </ol>	<b>No, if we move ahead of the IPSASB.</b> The amendments are narrow in scope. We are not certain how prevalent the type of contracts covered by the amendments are among PBEs. However, we are not aware of an urgent need to introduce these amendments for PBEs. While we acknowledge the possibility of 'mixed group' challenges in certain circumstances, these could be mitigated in a timely manner if we wait for the IPSASB. Also, for the reasons explained in paragraph 15 above, we consider that the cost of moving ahead of the IPSASB would not be sufficiently justified by benefits.
In the case of a new or amended IFRS Standard that is relevant to PBEs, the IPSASB's likely response to the change (e.g. whether the IPSASB is expected to develop an IPSAS in an acceptable time frame).	<b>Yes. The IPSASB is expected to address this matter in a timely manner.</b> See the discussion above.

#### Question for the Board

Q1. Does the Board **agree to wait for the IPSASB** to finalise its project relating to *Contracts Referencing Nature-Dependent Electricity*, rather than developing PBE amendments at this time?