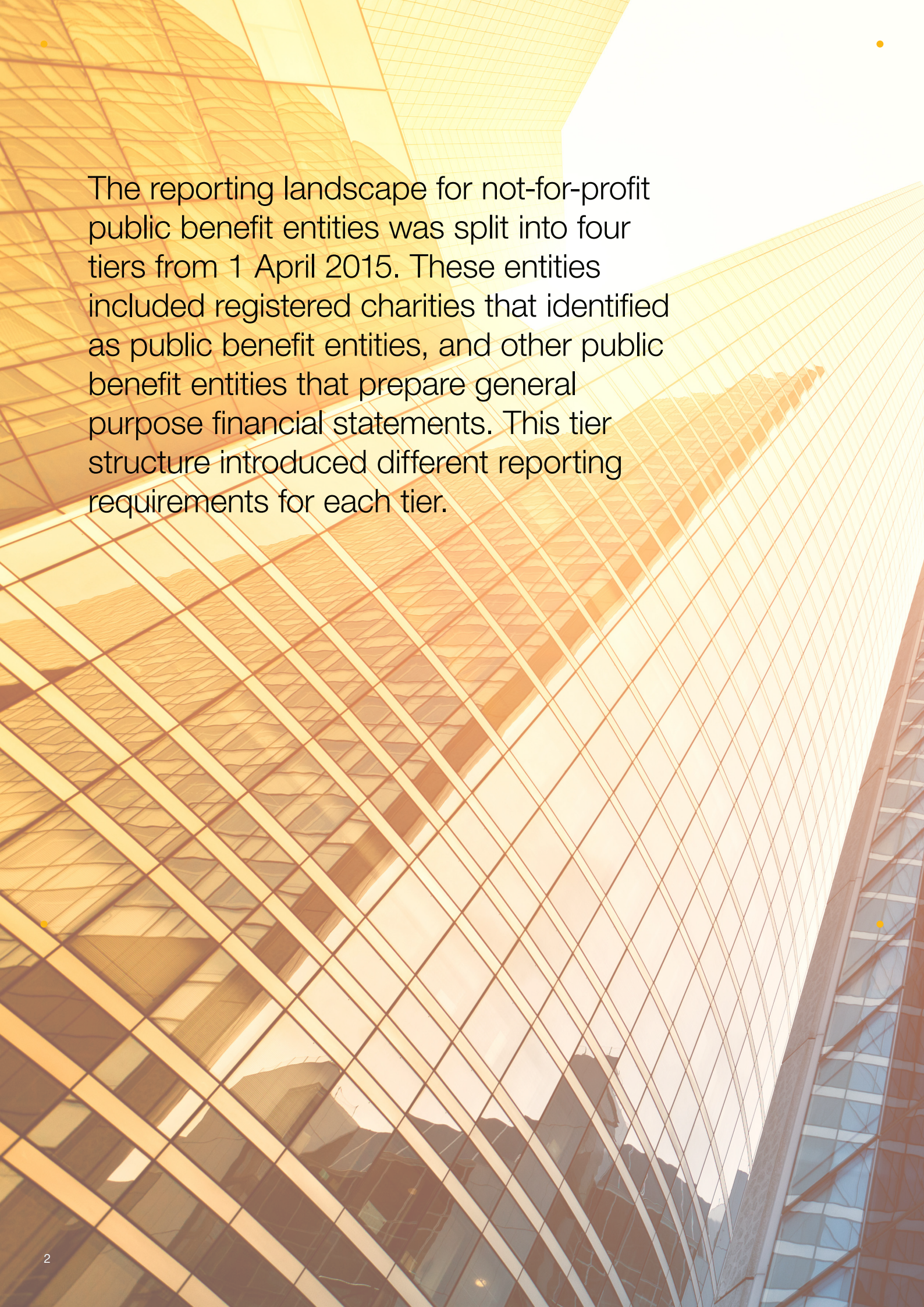


New service performance reporting standards for not-for-profit entities

Overview of Service Performance Reporting





The reporting landscape for not-for-profit public benefit entities was split into four tiers from 1 April 2015. These entities included registered charities that identified as public benefit entities, and other public benefit entities that prepare general purpose financial statements. This tier structure introduced different reporting requirements for each tier.

Reporting Tier	Required Standard(s)	Nature of Reporting
Tier 1	PBE Accounting Standards (PBE IPSAS and others)	Full recognition, measurement and disclosure requirements of New Zealand equivalents to International Public Sector Accounting Standards, plus certain additional New Zealand specific standards.
Tier 2	PBE Accounting Standards RDR (PBE IPSAS RDR and others)	<p>Full recognition and measurement requirements of New Zealand equivalents to International Public Sector Accounting Standards, plus certain additional New Zealand specific standards.</p> <p>Reduced disclosure regime reduces the level and significance of disclosures.</p>
Tier 3	PBE SFR-A (NFP)	Simple format accounting standard on an accrual basis. Includes additional non-financial reporting requirements on service performance.
Tier 4	PBE SFR-C (NFP)	Simple format accounting standard on a cash basis. Includes additional non-financial reporting requirements on service performance, but less than Tier 3.

Since 1 April 2015, Tiers 3 and 4 have been reporting on service performance information in varying degrees. The focus was on telling the story of these entities through more than just financial information as, often, the more important information about an entity's operation and performance is through non-financial information.

Tiers 1 and 2 did not have mandatory standards for reporting on service performance information. However, this is about to change.

New Standard for Tiers 1 and 2

As of 1 January 2021, all entities reporting under PBE Accounting Standards and PBE Accounting Standards RDR (being tiers 1 and 2) will be required to report on their non-financial activities. This is a significant change in the reporting landscape for these entities and presents an opportunity for these entities to be able to report on more than just the finances behind their operations.

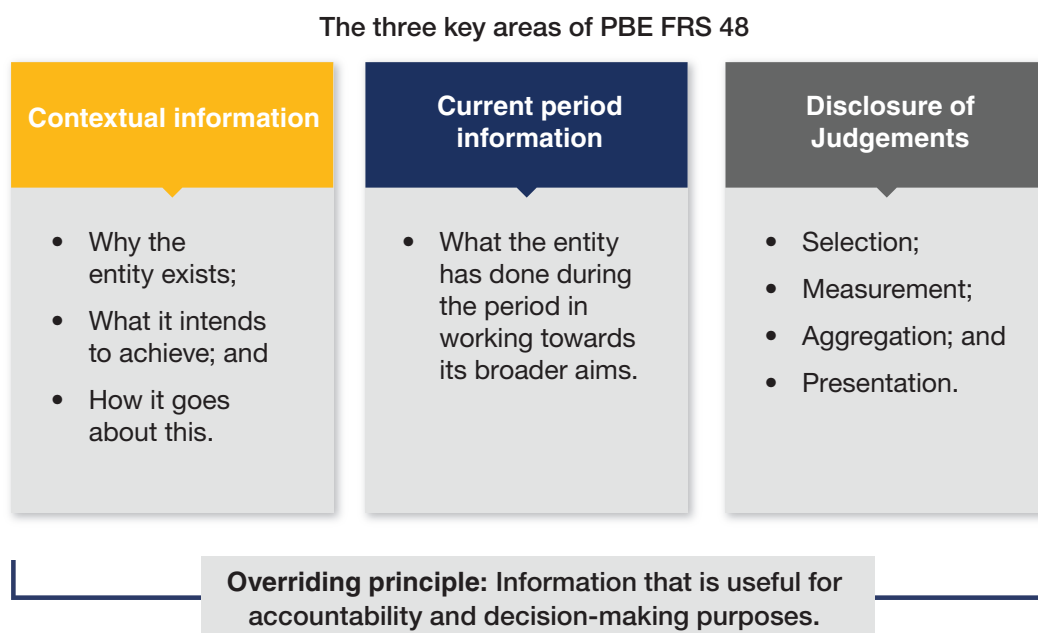
The External Reporting Board (XRB) has published a new standard: PBE FRS 48 Service Performance Reporting. The standard seeks to guide entities in defining what service performance information is and how this should be reported in their annual reports. It is our experience that many entities in this area already publish some form of non-financial measures. The next step for these entities is to understand what the standard requires and what level of changes are needed to meet the new requirements.

Our view of PBE FRS 48 is that it is a 'high-level' standard. The standard is not overly prescriptive and provides broad definitions and guidance to the relevant features of the standard. It requires the same qualitative characteristics as typical financial reporting; therefore, the concepts will not be foreign to many. The standard is written in a way that it can be scaled down to smaller or simpler entities and scaled up to larger or more complex entities.

In this document we provide you with the necessary information to understand the impact the standard will have on your business and provide useful guidance and places to start in coming up to speed with the requirements of service performance reporting.

The three key areas of PBE FRS 48

When applying PBE FRS 48, there are three key areas you are required to report on.



1. Sufficient contextual information

Entities are asked to explain:

- What they do and why.
- What changes they want to bring to their community or society.
- How they plan to achieve this.

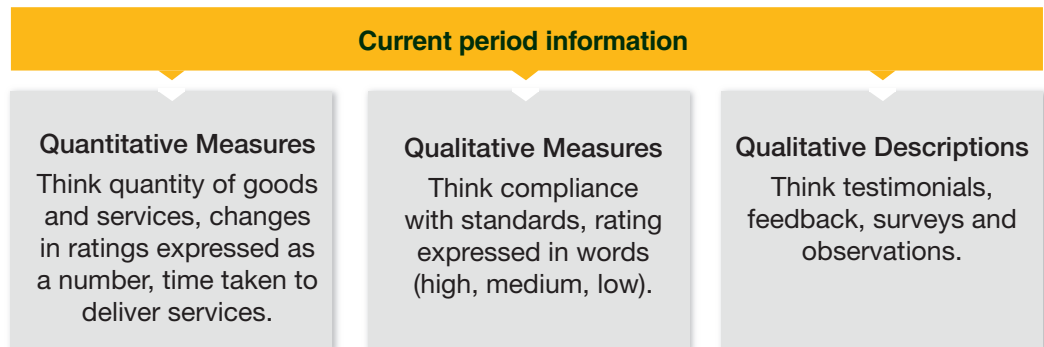
The standard specifically requires relevant information about why the entity exists, what it is intending to achieve in broad terms over the medium-to-long term and how the entity seeks to achieve this.

The information is important for users to be able to understand the purpose of your entity but also understand the story behind the financial numbers in the annual report.

The information on how you go about achieving your purpose requires you to explain the main ways you carry out your service performance activities. This could include delivery of goods or services, working with other entities, contracting with other entities or making grants.

2. Current period information

Entities need to report on what they have done during the current period in working towards its broader aims. There are three types of information that can be reported:



Deciding on what to report

Deciding what to report will be a critical factor for all entities. This could be easier for smaller and less complex entities where there is a very narrow focus, however there will still be judgement involved. For larger or more complex entities, particularly those with a wider focus, this can be a challenge and will require significant involvement across the organisation.

Entities are encouraged to select a mix of the three types of information (quantitative measures, qualitative measures and qualitative descriptions) but are not required to include all. The mix will differ between entities.



Some of the factors that are relevant in deciding what to report include:

- What you intended to achieve during the period – some entities will have specific performance targets based on contracts. Others will have more general objectives such as a planned improvement in a measurement or outcome for a target population. These could be found within contracts or planning documents such as an annual or strategic plan.
- How you went about achieving the objectives – the way in which an entity actually carries out its goals will determine what types of information to report. This could be through the goods and services it provides through to making grants. With grant-making entities, this could cover the funding provided but could also extend to the services provided by those funding recipients.
- What users will understand – it is important to report current period information that users can understand and therefore make decisions about the performance of the entity.
- Ensuring a balance of positive and negative outcomes – entities will naturally want to report only on the positive outcomes. This does not

always provide relevant information to users on the effectiveness of an entity's operation. There needs to be a balance between positive and negative outcomes so that entities can be accountable for their activities and continue working towards what they intend to achieve.

- Ensuring information is comparable over time – one of the fundamental requirements of service performance information is that it can be comparable over time. This doesn't mean that what is selected must always be reported. It requires entities to think about whether information can be compared from one period to the next to provide context to an entity's operations from one period to the next.

Materiality is integral in deciding what to report. Not every measurement or outcome should be reported. Aggregating information to an appropriate level or reporting on only significant activities will be based on materiality decisions. Further, some information may be very costly to obtain and report reliably. Decisions around the cost-benefit of reporting needs to be considered.

3. Disclosure of judgements

PBE FRS 48 requires you to disclose judgements that have the most significant effect on the selection, measurement, aggregation and presentation of service performance information. This includes those judgements that are relevant to an understanding of what you have chosen to report and why.

There are three key areas where these judgements are made and are summarised as:

Para 19

Nature of information to provide:

- Nature of performance measure (internal vs external);
- National entity reporting by activity, or region, or both;
- Choosing between a service delivery vs societal impact measure.

Para 21

Meaningful mix of performance measures:

- How the balance of measures was selected;
- Why types of measures were included / excluded.

Para 22

Considering the qualitative characteristics:

- Ability to reliably measure;
- New measures may not be comparable or in development.

Not all judgements have to be disclosed:

You will need to:

- Identify the judgements that have the most significant effect on the service performance information; then
- Decide which of those judgements are relevant to a user's understanding of the service performance information.

Presentation

PBE FRS 48 is unique in that it does not have a specified requirement on how the information is to be presented. Unlike the statement of services performance for Tier 3 and Tier 4 entities, a separate statement is not required, though it could be a useful option for some entities.

The presentation requirements are very general and only requires the:

- Service performance information to accompany the same annual report as the financial statements.
- Service performance information to be clearly identified. This includes appropriately distinguishing it from 'other information'.
- Comparative information to be provided.

Deciding what is service performance information and what is 'other information' could be a challenge for many entities. We have seen many entities already publish some form of non-financial measures in their annual reports. It is our expectation that only some of this would meet the definition of service performance information based on PBE FRS 48. This doesn't mean you cannot prepare and publish the other non-financial measures, but care will be required to ensure the two sets of information are appropriately identified and clearly distinguished from each other.



Transitioning to PBE FRS 48

The transition process is important as there are no transition exemptions. The standard must be applied fully retrospectively, which means that full comparative information is required. Even though the effective date appears to be some distance away, entities need to be considering the impact of this standard and what changes need to be made now.

Below is an overview of the impact on common balance dates:

First effective year for different balance dates		
31 December 2021	31 March 2022	30 June 2022

Year required for comparatives		
31 December 2020	31 March 2021	30 June 2021

Date information is required to be captured from		
1 January 2020	1 April 2020	1 July 2020

The date for comparative information to be captured has either passed or is fast approaching. Not only do entities need to define the service performance information, they also need to ensure there are appropriate systems, processes and controls over the service performance information. This is important to provide reliable information and ensure the information is able to be audited.

Crowe can help you get ready for PBE FRS 48

Crowe's significant experience in the not-for-profit sector can provide your organisation with a range of solutions, including:

1. A framework and working papers to identify and document the service performance information required.
2. Detailed training sessions on PBE FRS 48 to help your employees get up to speed on the details of the new standard.
3. Workshop facilitation for key personnel to identify the significant elements for your entity and create an implementation plan.
4. Specialised agreed upon procedures to determine whether your systems and processes are 'audit ready'.





Next steps with Crowe New Zealand

For more information on how these changes impact your organisation, contact the Audit & Assurance team at Crowe Australasia to discuss how we can help you prepare for the new service performance reporting standard.

Talk to us

Call us on our free phone number 0800 494 569 (NZ). This number will transfer you to your closest office, where we will be happy to connect you with the best person to assist you.

Visit our website

We have a range of tools and ideas to help businesses, as well as specific information about our services and people available on our website.

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1 April 2020

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