

Bulletin two

Implications of the COVID-19 emergency for service performance reporting.

Introduction

The state of emergency in response to COVID-19 has significantly impacted most public sector entities. The consequences for the preparation of annual reports, including service performance reporting, is one small part of this impact. This Bulletin is intended to provide high-level guidance to audit committees, and preparers of service performance information in annual reports, about some of these consequences and some of the areas that auditors will be considering during the audit.

The situation with COVID-19, including New Zealand's COVID-19 alert level, the rules applying at that level, and the known and expected impacts on the economy, public sector, private sector businesses, and individuals is changing and evolving. In this environment, there are likely to be further issues arising over time and the appropriate responses might change. We encourage you to engage with your auditor at an early stage as issues are identified, so that we can work through these challenges together.

This Bulletin provides guidance on service performance reporting. When we use the term "service performance reporting", we are referring broadly to the annual non-financial performance reporting obligations of public sector entities. In Appendix One we set out what we mean when we refer to service performance reporting for different parts of the public sector (for example, government departments, Crown entities, and local authorities).



Content of this Bulletin

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► What are the objectives and key principles of service performance reporting that continue to apply in the current COVID-19 situation?

The objectives of service performance reporting are to:

- » allow users¹ of the report to assess how an entity has performed during the reporting period; and
- » provide information that is useful to users for accountability and decision-making purposes.

The auditor will form an opinion on the service performance information. This opinion may be expressed as:

- » the service performance information presents fairly, in all material respects, the performance of the entity for the reporting period; and (where applicable²) complies with generally accepted accounting practice.

In some parts of the public sector, governing bodies are required to publicly state a similar opinion in a statement of responsibility included in the annual report. Precise requirements for opinion wordings and statements of responsibility vary according to the specific legislation applying.

Some of the key principles auditors consider in assessing performance reports and forming their opinion are:

- » The service performance report should provide sufficient performance information about an entity's actual activities during the reporting period for its performance to be assessed. This includes information about both:
 - activities planned for the period, with performance indicators set out in the formal accountability documents³ agreed prior to the start of the year; and
 - significant activities undertaken that were not planned for (such as new or significantly enhanced services in response to the COVID-19 emergency).
- » In considering appropriate performance information (such as for new services) entities should consider:
 - different dimensions of performance (for example, quantity, timeliness and quality); and
 - the qualitative characteristics of useful performance information, such as relevance, reliability, understandability, timeliness and comparability.
- » Information about the effects of services, such as the extent to which objectives were achieved or progress was made towards desired impacts or outcomes is also important.

1 For the public sector, the Public Benefit Entities' Conceptual Framework defines users broadly to include taxpayers, ratepayers, service users, and elected representatives.

2 Refer to Appendix One for information on which parts of the public sector are required by legislation to comply with generally accepted accounting practice.

3 Accountability documents setting out the performance measures for the year include statements of performance expectations, statements of intent, estimates of appropriations, and council long-term plans.

- » Although entities commonly report performance measures with quantified targets and results, narrative reporting providing a balanced description of performance is appropriate and acceptable in some circumstances.
- » Entities should report against all of the performance indicators set out in their formal accountability documents at the start of the reporting period. Refer to discussion later in this Bulletin for guidance on when this is not possible.
- » Entities should explain in the service performance report any significant variances between their actual performance and their expected performance for the year.
- » Performance information needs to work in conjunction with the financial information to convey a coherent picture of an entity's performance.

Further guidance on the application of these principles is set out in the responses to the questions below.

Are public entities expected to include disclosure of the impacts of the COVID-19 emergency in their service performance reporting?

Yes, we expect public entities to include information about the impact of the COVID-19 emergency on their activities during the year. The extent of this disclosure depends on the level of impact. If the impact is limited, then a high-level disclosure will be sufficient. Where the impacts of COVID-19 on the entity's services are more significant, more comprehensive disclosure is expected.

This disclosure should explain the impact of the COVID-19 emergency on the services delivered by the entity and might cover:

- » whether services were able to continue during different COVID-19 alert levels;
- » the extent to which services needed to be reduced (or increased) in response to the COVID-19 emergency;
- » whether any new or enhanced services were delivered during the period in response to the COVID-19 emergency;
- » the extent to which staff or resources were redeployed to other organisations to assist in the COVID-19 response; and
- » whether the lockdown period adversely affected the entity's ability to report against performance indicators (for example, because service performance information systems or controls have not operated normally during the lockdown period).

The disclosure will depend on each entity's individual circumstances. The information should be balanced and supportable, and focus on the more significant matters.

For any entities for which there has been no significant impact on services, the disclosure would simply state this and briefly explain why the services were unaffected.

For complex entities that provide multiple services, different services may have been impacted differently by the COVID-19 emergency. For these entities it may be appropriate to have a high-level overall disclosure, with more specific information included within the reporting for each activity (local authorities), output (Crown entities), or appropriation (government departments).

► **If services have been significantly affected by the COVID-19 emergency, how should this be reported in the service performance report?**

The COVID-19 emergency has significantly affected the services provided by public entities. Many entities have had to reduce or cease some or all of their activities, or have been redirected into providing different services. Others, such as in health care or the provision of financial support, may have substantially increased some services or commenced new services, while reducing other services.

As explained above, the service performance report should include additional disclosure setting out these changes.

Reporting against performance indicators where service levels have changed significantly because of the COVID-19 emergency

Where entities have stopped providing a service during the COVID-19 emergency, or significantly reduced the level of service provided, this is likely to adversely impact on the achievement of some performance targets set in the accountability documents at the start of the year. As per usual practice, entities should provide a variance explanation setting out the reasons for significant variances between planned and actual performance levels. This might simply require stating that the service stopped being provided because of the COVID-19 emergency.

Similarly, where the provision of a service has increased during the COVID-19 response, variance explanations should explain the reasons for the increased level of the relevant service.

Some entities choose to report for each performance indicator whether the set target has been “achieved” or “not achieved”. Where services have been stopped or significantly reduced, this will likely result in an increase in performance targets being reported as “not achieved”. The disclosures and variance explanations need to be sufficient to explain this. Our audit report does not comment on the extent to which performance measures have been achieved.

One presentation option to consider is splitting the reported performance against relevant service measures into two periods: the period before the COVID-19 lockdown, and the subsequent COVID-19 response affected period. This approach should allow the reader to see if performance was tracking as expected during the “normal” period, and indicate the subsequent impact of COVID-19.

Depending on the nature of the target, it might also be possible to pro rata the target across the period. For example, if the target is the number of visits to a council’s libraries, the council could apportion the target to show the expected number of visits for the period when libraries were open. This works best when the entity usually has an even distribution of service delivery across the year. Entities will need to clearly explain this method of reporting and may need to provide variance explanations for both the pre-lockdown period and the subsequent COVID-19 response affected period.

Performance reporting expectations for new services provided in response to the COVID-19 emergency

One of the key principles of performance reporting is that the service performance report should provide sufficient performance information about an entity's actual activities during the reporting period. This includes performance in the activities planned for the period and also performance in significant activities undertaken that were not planned for (such as new services in response to the COVID-19 emergency).

This means the service performance reporting should include performance information about all significant services delivered during the year, even when there were no formal performance indicators established for those services at the start of the year (because the delivery of the service was not anticipated). What are our expectations for this performance information?

For new or significantly enhanced services in immediate response to the COVID-19 emergency (such as health services), our expectation is that entities will use their best endeavours to provide information that gives an indication of performance for these services. Where possible, entities should try to meet the key principles for service performance reporting outlined on pages 2 and 3 of this Bulletin.

Given the emergency nature of the immediate COVID-19 response, we do not expect entities to have developed or captured any new performance metrics or quantitative performance information on COVID-19 emergency response services solely for external reporting purposes. If entities have recorded suitable metrics or quantified performance information for other reasons, then they should consider whether it is suitable for including in external service performance reporting.

If suitable quantitative information is unavailable, then we expect entities to include narrative performance information on their COVID-19 emergency response services. This information should describe the new or significantly enhanced services, with ideally some indication of the extent of the services (such as amount of service provided, coverage, or resources used) and any available information about quality or success of the service provided. As with all reporting, this should be fair and balanced.

With the reducing number of COVID-19 cases and the reduction in the COVID alert level, the Government's response has increasingly focused on economic and social support and stimulus, with substantial new funding being approved in the May Budget. Our expectation is that government agencies are developing appropriate performance metrics for this new funding and, in many cases, will have quantitative information available to report at least some performance metrics for this new funding at 30 June.

► **Should service performance reports include comment on events subsequent to balance date or plans and expectations for the future in relation to the COVID-19 situation?**

Generally, service performance information is focused on the reporting period. However, for the information to be useful and time-relevant to users, we consider the service performance report should include comment about any significant matters that occur between the balance date and the time the annual report is finalised. For example, a 31 March balance date entity that was unable to provide some services during the lockdown should disclose if these services have re-commenced after balance date. This is consistent with the approach taken in financial reporting standards, where material events occurring after balance date are required to be disclosed.

It might also be useful to disclose brief information about plans for future service delivery, such as plans or expectations about restarting services, together with information about uncertainties that might affect those plans.

► **What if the systems that capture service performance information have not operated normally, or controls have lapsed, during the COVID-19 emergency?**

Some entities that have continued providing services through the lockdown period may not have maintained robust systems to accurately capture performance information during this period (for example, because of lack of access to premises or systems). This may mean that they are unable to report performance information for this period, or they have performance information to report, but systems, controls, or documentation issues may mean there are limitations in the evidence available for auditors to gain assurance that the reported performance is fairly stated.

Entities should explain in their service performance reports:

- » the reasons why performance cannot be reported for any performance measures;
- » any issues with the performance reporting systems and controls that have resulted in:
 - reported performance against a measure not including information about the lockdown period (for a service that continued to be provided);
 - reported performance being less accurate or reliable than usual; or
 - significant limitations in the evidence to support reported performance levels.

In some cases, these matters may need to be commented on in the audit report (refer discussion of audit reports on p9).

► **What are the consequences and disclosure expectations when entities have not measured (or cannot measure) their performance against planned performance measures?**

As a general rule, entities are expected to report in their annual report their actual performance against all of the performance measures they established in their formal accountability documents for the year (for example, statement of performance expectations for a Crown entity, or long-term plan for a council). This year, some entities may not be able to report against some of their performance measures. Some possible examples, together with potential consequences, are in the table below.

Example 1

A Crown entity decides not to proceed with its annual stakeholder survey, or a local authority decides not to proceed with its annual residents' satisfaction survey. We understand that some entities are considering whether it is appropriate or practical, at this time, to conduct these surveys. Part of this consideration is that respondents' views might be overly affected by events of the last quarter of the year, when some services ceased or only partially operated.

Whether to run these surveys is a decision for the entity. If planned surveys are not done, then the reasons for this should be explained in the service performance report.

If the survey was intended to provide material information about the performance of the entity, then the audit report is likely to comment that this information has not been reported. We will not be forming a view on (and will not comment in the audit report about) the merits of public entities' decisions on whether or not to proceed with surveys in these circumstances.

Example 2

An entity planned to run a seminar, and has a performance measure based on asking attendees to rate their experience at the seminar. The seminar did not proceed due to the lockdown.

The performance measure is no longer relevant, as the seminar was not held. The entity will simply need to explain this in its service performance report.

Example 3

An entity did not have access to its offices at 31 March (when a report needed to be generated), or does not have access to its systems in overseas offices that are still locked down, so does not have the data it needs to be able to report its actual performance against some performance measures.

Entities should explain in their service performance reports the reasons why performance cannot be reported for any performance measures.

Depending on the materiality of the measures affected, the audit report may include comment that the planned performance measures could not be reported against.

If these or similar circumstances apply, we encourage you to discuss your specific circumstances with your auditor at an early stage.

► What is the likely impact on audit reports?

In the current environment, we are expecting to include some level of comment about COVID-19 impacts in most of the audit reports we sign. These could be qualifications to our opinion or comments we make to emphasise matters (such as uncertainties) disclosed in the service performance report or the financial statements.

These possible audit report responses are a reflection of the changed environment and its consequences for some public entities, rather than a negative comment about an entity's performance or preparation of the service performance report. Any comments in our audit reports will explain this context.

Specifically in relation to service performance reporting, our audit report could comment on:

- » not reporting actual performance against performance measures set in the accountability documents for the year;
- » not reporting performance for the whole year for services that were provided for the whole year;
- » not providing any disclosure about COVID-19 impacts on services;
- » not providing any performance information (neither performance measures nor narrative descriptions of performance) in relation to material activities that were not originally planned for the year, but which were undertaken in response to the COVID-19 emergency;
- » material uncertainties in performance reporting information; or
- » deficiencies in systems, controls or supporting documentation, such that we are unable to obtain sufficient appropriate audit evidence to support reported levels of performance.

Factors that we consider in making decisions on audit report consequences for service performance reporting matters include:

- » the materiality (importance) of the performance measure(s) being considered. Decisions made about material performance information at the planning stage of an audit may be reviewed in light of the COVID-19 response's impacts on entities and their performance reporting. Auditors may consider performance information on new or different services to be material;
- » the number of performance measures affected – the measures might not be material at the individual level, but they might become material when considered collectively; and
- » whether other unaffected performance measures or additional disclosure can provide sufficient relevant performance information to compensate for the aspect of performance that was intended to be covered by the affected measure(s).

The appropriate audit report to issue is determined based on professional judgement and the requirements of the Auditing Standards.⁴

⁴ *The Auditor-General's Auditing Standards*, which incorporate the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board.

► Appendix One – What do we mean by service performance reporting and what financial reporting standards apply to its presentation?

When we use the term “service performance reporting” in this Bulletin, we are referring broadly to annual end-of-year non-financial performance reporting obligations in public sector entities. This includes:

Sector	Service performance information	Legislative reference	Generally Accepted Accounting Practice compliance requirement
Government departments	End-of-year performance information for appropriations; and reporting progress against strategic intentions.	PFA ⁵ s.19A PFA s.45(2) (b)	Yes
Crown entities	Statement of performance; reporting progress against strategic intentions; and end-of-year performance information for appropriations (if required).	CEA ⁶ s.153 CEA s.151(2) PFA s.19A	Yes
District health boards	Statement of performance; reporting progress against strategic intentions; and end-of-year performance information for appropriations (if required).	CEA s.153 CEA s.151(2) PFA s.19A	Yes
Tertiary education institutions	Statement of service performance. Note: No service performance reporting is required in 31 March disestablishment reports of institutes of technology and polytechnics.	EA ⁷ s.220(2A)(f)	Yes
Local authorities	Statement of service provision.	LGA ⁸ Schedule 10 clause 25	Yes
Council-controlled organisations	The performance targets and other measures by which performance is judged in relation to the objectives.	LGA s.69(1) (b)(ii)	No
Energy companies (electricity lines companies and gas distribution companies)	The performance targets and other measures by which performance is judged in relation to the objectives.	ECA ⁹ s.44(3) (c)(ii)	No

5 Public Finance Act 1989.

6 Crown Entities Act 2004.

7 Education Act 1989.

8 Local Government Act 2002.

9 Energy Companies Act 1992.

For those sectors that have a legislative requirement for their service performance information to comply with generally accepted accounting practice (GAAP), the relevant reporting standards are:

- » PBE IPSAS 1: *Presentation of Financial Statements* (paragraphs 150.1 to 150.10 and Appendix C cover service performance reporting);
- » PBE FRS-48: *Service Performance Reporting* (applies from 1 January 2021¹⁰ but can be adopted early); and
- » FRS-44: *New Zealand Additional Disclosures* (sets out requirements for **for-profit entities** that report service performance information).

For very small public benefit entities, the requirements for the statement of service performance are set out in the Tier 3¹¹ and Tier 4¹² standards.

This Bulletin does not explicitly cover reporting by those public sector groups whose service performance information is not subject to audit (such as ports, Crown research institutes, and state-owned enterprises).

10 Due to the disruption to the operations of many entities as a result of COVID-19, the External Reporting Board is consulting on a proposal to defer the effective date to January 2022.

11 The tier 3 criteria include expenses being less than \$2million and not being publicly accountable (as defined).

12 The tier 4 criteria include expenses being less than \$125,000, not being publicly accountable (as defined) and allowed by law to use cash accounting.

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