



Memorandum

To:	AASB and FRSB members	Date:	14 October 2009
From:	Robert Keys and Joanne Scott	Agenda Item:	9.1
Subject:	Service Performance Reporting	File:	

Purpose of this paper and action asked of the Boards

1. The purpose of this paper is to inform both the AASB and FRSB of the progress made to date by each Board on their respective work on service performance reporting. It is intended to assist the Boards in:
 - (a) determining whether, and if so how, the projects should be progressed jointly; and
 - (b) expressing any initial thoughts on whether, and if so how, the main differences in tentative views formed to-date on a number of threshold issues (listed in appendix A of this memorandum) might be resolved sufficiently for a joint project to succeed.

AASB progress to date

2. Currently in Australia, the AASB's literature does not explicitly address service performance reporting. At its 29-30 July 2009 meeting, after considering a project proposal, the AASB decided to undertake an active project 'Disclosures by Private Sector Not-for-Profit Entities'. Funding for the project is being provided from the Companies and Unclaimed Monies Special Account (CUMA).
3. The AASB decided that, initially (phase 1), the project should focus on disclosures that Australian Accounting Standards do not currently require of private sector not-for-profit entities that should be required, having regard to the information needs of users of general purpose financial statements. In the first instance (part 1 of phase 1), the AASB decided to consider service performance reporting, including the work being undertaken by the International Public Sector Accounting Standards Board (IPSASB) and the FRSB on that topic. The intention is that this part of the project has a 12-month development timeframe. At its September 2009 meeting, the AASB also decided that disaggregated/segment/program disclosures should be included within the scope of part 1 of phase 1, to the extent such financial information is pertinent to an assessment of an entity's service performance. Phase 2 of the project will assess existing disclosure requirements of private sector not-for-profit entities. A possible phase 3 might consider the presentation of conventional financial statements prepared by private sector not-for-profit entities.

4. In relation to part 1 of phase 1, at its September 2009 meeting, the AASB considered a range of threshold issues pertinent to service performance reporting by private sector not-for-profit entities for the purpose of identifying working assumptions upon which to base its ongoing work. A high level summary of its tentative views are listed in the second column of the table in appendix A of this paper.
5. The AASB is in the process of forming a Project Advisory Panel. To date, there are about 55 nominations. The intention is to use Panel members as a sounding board on issues papers that will be prepared for future Board meetings.

FRSB progress to date

6. The NZ literature already contains requirements and guidance relating to service performance reporting. Technical Practice Aid TPA-9 *Service Performance Reporting* was first issued by the FRSB in September 2002 and subjected to a limited scope revision in November 2007. It is widely adopted by NZ public sector entities and by some private sector PBEs. In addition to TPA-9, service performance reporting is addressed in the NZ *Framework* and in NZ IAS 1 *Financial Statement Presentation*.
7. The NZ *Framework*, paragraph NZ 7.1, explicitly acknowledges the practice of including statements of service performance in a financial report. Paragraph NZ 7.1 states “A financial report may include financial statements, non-financial statements such as statements of service performance and supplementary information which is additional to the information in financial statements”. Paragraphs NZ 20.1 to NZ 20.6 explain the role of service performance information in assisting users of financial statements. These paragraphs refer to service performance information as non-financial information. Paragraph NZ 101.3 requires the quality of the information presented in non-financial and supplementary information to be considered with regard to the qualitative characteristics (including understandability, relevance, reliability and comparability) and constraints on those qualitative characteristics (including timeliness and cost/benefit considerations) discussed elsewhere in the NZ *Framework*.
8. Paragraphs NZ 138.1 to NZ 138.10 of NZ IAS 1 require that “Where a statement of service performance is presented it shall describe and disclose the outputs of an entity” (TPA-9 explicitly distinguishes outputs from inputs and outcomes) and that the statement shall present a comparison of planned and actual performance. Paragraph NZ 138.3 encourages an entity to prepare and present a statement of service performance if:
 - (a) the entity receives significant revenue intended to benefit third parties without giving reciprocal benefit or consideration to the party providing the revenue; or
 - (b) the entity has non-financial objectives of such importance that non-financial performance reporting is significant to users of the financial statements.
9. Working groups are established by the FRSB to undertake preliminary work on issues or to undertake special projects. They include one or more FRSB members and the chair is always a FRSB member. The nature of the work undertaken by a working group is determined by the FRSB. It may range from undertaking preliminary work on

an issue to the development of a proposed pronouncement or other publication. Working groups make recommendations to the FRSB. The PBE Working Group has been operating since 2005 and has assisted the FRSB in revising NZ specific pronouncements widely used by PBEs such as FRS-42 *Prospective Financial Statements* and FRS-43 *Summary Financial Statements*.

10. The FRSB has requested that its PBE Working Group review the existing requirements and guidance relating to the statement of service performance and has indicated that this is to be treated as a high priority project. In addition, the FRSB has requested that the PBE Working Group consider the following issues or projects of other standard setters as part of this project:
 - (a) segment reporting or disaggregated reporting by PBEs;
 - (b) the IPSASB's project on *Reporting of Service Performance Information*;
 - (c) the AASB's project on *Disclosures by private sector not-for-profit entities*; and
 - (d) the relevance of the IASB ED on *Management Commentary*.
11. The PBE Working Group had its first meeting for 2009 on 2 October and, as part of its discussions, considered the threshold issues that were considered by the AASB in September 2009. The PBE Working Group's tentative views on these issues are listed in the third column of the table in appendix A of this paper. The views of individual FRSB members are not necessarily the same as those of the PBE Working Group. The FRSB has not had an opportunity to debate these issues prior to this meeting.

Comparison of AASB and PBE Working Group tentative views to-date

12. The AASB and PBE Working Group views on a range of threshold issues are listed side by side in appendix A. Differences that staff have identified as significant are highlighted in the fourth column of the table for the information of Board members. Although it is not intended that the differences necessarily be resolved at the forthcoming joint meeting, it would be useful, time permitting, for the Boards to indicate whether, and if so how, they think the differences could be resolved sufficiently for a joint project to succeed.

How AASB/FRSB might work together

Potential benefits of a joint project

13. Potential benefits of progressing the work in a joint project include that it would:
 - (a) help discharge the two Boards' respective responsibilities to trans-Tasman objectives;
 - (b) have a reasonable probability of success, because, as the table in appendix A to this paper indicates, there is the potential for a high level of alignment in the thinking of the two Boards;
 - (c) result in more robust outcomes – as with most endeavours, the more minds that are turned to an issue, the better the chance of identifying and resolving issues; and
 - (d) make efficient use of staff resources, minimising duplication of effort, enabling each Board to leverage off the progress made by the other.

Challenges that would be faced

14. Issues to be considered in identifying how to progress the work in a joint project include:
- (a) the FRSB has a history of service performance reporting in the form of TPA-9 that Australia does not have. This has led to a general acceptance of the need for guidance on service performance reporting, the FRSB's involvement in providing such guidance and the provision of service performance reports within the financial reports, but separate from the financial statements. In contrast, the AASB's project is a 'greenfields' project, has a much broader scope (because service performance reporting is only part 1 of phase 1 of a larger project) and includes consideration of a number of fundamental issues that would not necessarily be considered as part of the FRSB's project;
 - (b) the AASB has a 12-month development timeframe on service performance reporting, which may not suit the FRSB's priorities;
 - (c) the range of entities that would be potentially affected by the respective projects currently differ (FRSB comprises both the private and public sectors; at this stage AASB comprises only the private sector). Even if the range of technical issues do not differ between the sectors, the level of consultation required with constituents would be greater with the broader scope. This could stretch the AASB's 12-month development timeframe;
 - (d) the AASB's 12-month timeframe could also be severely tested unless the two Boards are able to integrate their consideration of issues in a coordinated way (see agenda paper 11.1); and
 - (e) any decision to undertake a joint project would need to be supported by appropriate working arrangements. For example, at present, the AASB is progressing the project at a Board level supported by a Project Advisory Panel while the FRSB is progressing the project through its PBE Working Group.

Tentative AASB/FRSB staff view

15. The challenges for the AASB and FRSB undertaking this project jointly should not be underestimated. Despite this, the staff think it is worth progressing the work on service performance reporting jointly. The AASB/FRSB working relationship could be modelled along the lines of the AASB/FRSB working relationship during the ED 180/ED 118 *Income from Non-exchange Transactions* project, modified to reflect experience. In this case, staff from the AASB and from the FRSB worked as a joint project team and jointly prepared papers for presentation to the AASB and FRSB. To maximise the chance of success, the Boards will need to be efficient in considering the matter to meet the AASB's timetable. This will require a high level of integration in both staff work and Board consideration. It will involve:
- (a) the AASB and FRSB deciding which aspects of the AASB's current project should be included in the joint project. Staff recommend that the Boards at least agree to work jointly on the development of general principles for service performance reporting [see issue 7 in Appendix A], even if the AASB were to primarily focus on the private sector and the FRSB were to primarily focus on the public sector, given that it is expected that the principles would apply equally

- across the two sectors. The Boards could also work jointly on the consequences of issues 8 & 9 in Appendix A]. This approach would enable the AASB, if thought necessary, to resolve on its own some of the fundamental issues (having regard to the FRSB position) that are not within the scope of the FRSB work (such as the distinction between financial and non-financial information [see issues 2 & 3 in Appendix A], and any constraint that should be imposed on the information [see issue 6 in Appendix A]) before the joint work on developing principles and consequential work begins; and
- (b) all agenda papers relating to the joint aspects of the project being identical and developed jointly by staff. It is assumed that any joint project would be conducted at a Board level with AASB Project Advisory Panel members and FRSB PBE Working Group members being invited to comment on papers prior to (or concurrent with) their consideration by the Boards. If it is felt necessary, this could be supplemented by each Board nominating a sub-committee to also have input to the papers or a trans-Tasman sub-committee of Board members.

Agenda item 11 of the forthcoming joint meeting more fully considers, but at a higher level, the arrangements that staff think need to be put in place to ensure projects can be effectively progressed jointly.

Appendix A: Summary and comparison of AASB/FRSB/PBE WG decisions/views to-date

Issue	AASB tentative views	PBE WG tentative views	AASB/FRSB Staff comment
1 What is the problem that has been identified and which the project is attempting to address?	The AASB is addressing a gap in the Australian literature and responding to perceived user needs.	Service performance reports continue to vary in quality. The Office of the Auditor General (OAG) has expressed dissatisfaction with the quality of service performance reporting in the public sector. A principles-based standard would make it easier to educate people about the requirements relating to service performance reporting but would only go part way towards addressing current issues. A standard may also make it easier for others to develop more detailed guidance that is consistent with those principles.	Although the genesis for each Board's work differs, it would seem that a joint project, particularly one focussed on developing general principles, could meet the objectives of both Boards.
2 Financial information needs of users	<ul style="list-style-type: none"> • A working hypothesis is that NFP user disclosure needs may extend beyond for-profit user needs. • Presentation of conventional financial statements is outside the scope of the project. • Disclosures about disaggregated/segment/program information should be included within service performance reports, to the extent such financial information is pertinent to an assessment of an entity's service performance. 	<ul style="list-style-type: none"> • The PBE/profit-oriented distinction is a useful approach when thinking about user needs as the acknowledgement of public benefit objectives can be used to identify different user needs and justify the provision of different information than for profit-oriented entities. • Service performance reporting links financial and non-financial information. Therefore, the distinction between financial and non-financial information is not critical in determining the scope and/or applicability of the project. • Users of PBE financial statements need information about performance against budget and multi-year financial information. • PBEs may have restrictions on donated funds which need to be conveyed to users in the context of the financial statements. • Users of service performance reports may have a particular interest in using the financial statements to obtain information on financial capability and long-term viability. • FRSB decided that the issue of segment reporting or disaggregated reporting by PBEs is within the scope of the project, to be considered in the context of the finalised <i>Process for Modifying IFRSs for PBE/NFP</i>. 	<p>In the NZ context there is less concern about distinguishing between financial and non-financial information.</p> <p>FRSB has explicitly noted it will consider segment reporting in the context of the <i>Process for Modifying IFRSs for PBE/NFP</i></p>

Issue	AASB tentative views	PBE WG tentative views	AASB/FRSB Staff comment
3 Non-financial information needs of users	Users of NFP GPFSSs need non-financial information, whether quantitative or qualitative, pertinent to the NFP's principal objective. What constitutes non-financial information within a GPFSS framework is to be considered.	<ul style="list-style-type: none"> • Non-financial reporting is just as important, if not more important, than financial reporting for PBEs. • As noted under issue 2 above, it is not necessary to make a clear distinction between financial and non-financial information. Some non-financial information is already provided in the notes to the financial statements of profit-oriented entities and there may be some financial information included in service performance reports. • Service performance reports help integrate financial and non-financial information. 	<p>The AASB/FRSB views may be broadly aligned.</p> <p>PBE Working Group has not specifically identified 'what constitutes non-financial information within a GPFSS framework' as an issue.</p>
4 Should service performance information be included in annual reports? If so, should it be within the GPFSSs or outside the GPFSSs? If it is within the GPFSSs, should it be in a separate statement or in the notes?	AASB members have mixed views – the issue will be considered further in due course because it is premature to form a view on whether information on service performance should be in the financial statements or as part of management commentary.	<ul style="list-style-type: none"> • Current practice in NZ is for statements of service performance to be included in the annual report (the NZ <i>Framework</i> uses the term "financial report"), but outside the GPFSSs. This is consistent with paragraphs NZ 7.1 and NZ 20.1 in the NZ <i>Framework</i>. There is no need to review the location of service performance information within annual reports. • Management commentary may be provided on both the financial statements and the statement of service performance. 	<p>The AASB/FRSB views may be broadly aligned.</p> <p>In the NZ context there is likely to be disagreement to any proposal to include service performance information in management commentary, although there may be management commentary on service performance information.</p>
5 If service performance information is outside GPFSSs, does the Board have a role to play?	<ul style="list-style-type: none"> • The AASB has an interest in the form and content of service performance reports. • The AASB would be reluctant to take on a project that would not include a mandatory element falling within GPFSSs. 	<ul style="list-style-type: none"> • The requirements for financial statements and service performance reports should be integrated and one standard setting body should have responsibility for both. Therefore, the FRSB has a role in developing requirements for service performance reporting. 	The AASB/FRSB views may be broadly aligned.
6 What, if any, constraining principle should be placed on the information the Boards might decide should be included in service performance reports?	<p>The AASB will consider at least the following possible constraints:</p> <ul style="list-style-type: none"> • Information that explains amounts recognised in the financial statements. • Information that is directly related to the principal, NFP, objective of the entity. 	<ul style="list-style-type: none"> • It is important to report on both outputs and outcomes. • It is not necessary to develop a constraining principle on the information to be included in service performance reports. The fact that a number of public sector service performance reports are audited has the potential to act as a natural constraint on the type of information included in such reports but should not be permitted to limit the provision of relevant and reliable information. 	<p>FRSB is further advanced in its thinking because it already has TPA-9 in place.</p> <p>In the NZ context, the focus is on the nature of the information to be included, rather than how that information should be constrained.</p>

Issue	AASB tentative views	PBE WG tentative views	AASB/FRSB Staff comment
7 What level of detail should the Board consider?	<ul style="list-style-type: none"> • High-level principles, although the AASB acknowledged the challenges it might face in developing such principles. • One principle to be considered is a ‘through the eyes of management’ approach – whereby the performance indicators reported are those used by the entity’s management to monitor the entity’s performance – as a means of identifying appropriate indicators of an entity’s service efficiency, effectiveness and quality. 	<ul style="list-style-type: none"> • Generally agree with the development of high-level principles for service performance reporting. The principles should be similar for both public sector and NFP entities. • Some of the current problems with service performance reporting may be the result of (i) reports not being prepared at an appropriate level within an entity or (ii) reports being prepared as a separate exercise. • A standard setter can develop principles but its role does not extend to standardising performance information for various types of entities. 	<p>The AASB/FRSB views may be broadly aligned.</p> <p>AASB has explicitly mentioned a ‘through the eyes of management’ approach.</p>
8 Should analysed information be provided in service performance reports?	<ul style="list-style-type: none"> • The focus should be on providing information that can be used by users as input to their analysis, rather than providing an analysis. • However, this should not preclude analysed information that an entity’s management might regard as pertinent to reporting service performance from being included in a service performance report. 	<ul style="list-style-type: none"> • No specific views on this issue. 	
9 Should any Board pronouncement that is developed be mandatory?	<p>The AASB adopted a working assumption that it will develop at least some mandatory requirements (see item 5 above).</p>	<ul style="list-style-type: none"> • The FRSB has not yet decided whether the project would result in a new Standard or a revised TPA. • The principles should be mandatory for all PBEs required to comply with full GAAP. Application to smaller entities or those falling in lower tiers could be separately considered with the possibility of some form of differential reporting. • Some WG members felt that a standard setter’s role does not extend to standardising performance information for various types of entities. 	<p>The AASB/FRSB views may be broadly aligned.</p>

Issue	AASB tentative views	PBE WG tentative views	AASB/FRSB Staff comment
10 Should the scope of the project include for-profit entities?	<ul style="list-style-type: none"> • The AASB will formally consider the project in light of its <i>Process for Modifying IFRSs for PBE/NFP</i>, before determining whether the project should have implications for for-profit entities. • In the meantime, the focus will continue to be on NFPs. 	<ul style="list-style-type: none"> • No comment on this issue. 	<p>It is relevant to note that para 15 of the draft <i>Process for Modifying IFRSs for PBE/NFP</i> states:</p> <p>There are cases where user needs for information will differ between for-profit entities and PBE/NFP. In particular, users of the financial reports of PBE/NFP are likely to be especially interested in:</p> <p>(a) service delivery, being the quality of the goods and services produced and whether this level of quality is appropriate;</p> <p>(b) efficiency and productivity, being more likely to involve information that is based on costs and on information about outputs/outcomes that may be non-financial in nature; and</p> <p>(c) sustainability, because the sustainability of a PBE/NFP is more likely to depend on it meeting its mission than on its profits and profitability, whereas the sustainability of a for-profit entity is primarily dependent on financial performance.</p>
11 Should the scope of the project include public sector entities?	The AASB will reconsider whether the project's scope should be expanded to include public sector entities after it has discussed the project with the FRSB.	The scope of the project includes PBEs, whether in the private or public sectors.	FRSB includes the public sector, AASB does not as yet.
12 How should the AASB/FRSB/IPSASB projects interact?	To be discussed at the October 2009 joint AASB/FRSB meeting, which will be attended by the current and incoming Chairs of the IPSASB.	The FRSB proposes to monitor the IPSASB project and share staff papers with IPSASB staff.	The AASB/FRSB views may be broadly aligned.