

Paper 4 Appendix A Extracts from explicit frameworks relating to service performance reports referring to objectives

Explicit Framework	Objectives of service performance reports
NSW Government (<i>Better Practice Guide: A guide to preparing performance information for annual reports</i> , November 2000, Introduction, page 1)	“... a key mechanism by which they account for their performance. Information in annual reports should enable readers to clearly identify an agency’s objectives and the efficiency and effectiveness with which those objectives are achieved.”
Victoria Government – Standing Direction 4.2 <i>Reporting Requirements in terms of Part 7 of the FMA</i> (Background, page 1)	“... the principal medium through which Public Sector Agencies discharge their accountability to the Parliament, Government and the people of Victoria. ... should assist these users in making decisions about the utilisation of resources in the relevant entities.”
Queensland Government (<i>Annual Report Guidelines for Queensland Government Agencies Guidelines for the 2008-09 reporting year</i> , paragraph 1.1, page 8)	“... are key accountability documents and the principal way in which agencies report on their activities to provide a full and complete picture of agency performance to Parliament and the wider community.”
Western Australia Government (<i>Treasurer’s Instructions</i> , 904 Key Performance Indicators)	“... assists stakeholders and interested parties such as government, Parliament, the community and client groups to assess agency performance in achieving government desired outcomes and obtaining value for public funds from services delivered. In addition, it should assist agencies to understand their own performance: facilitating strategic planning, enhancing resource management and highlighting areas for improvement.”
NZ Financial Reporting Standards Board (FRSB) (Technical Practice Aid No. 9 <i>Service performance reporting</i> , paragraph 1.12)	“... to strengthen accountability for delivery of outputs as specified.”
UK Accounting Standards Board (ASB) (Statement of Principles For Financial Reporting – Interpretation for Public Benefit Entities, June 2007, paragraph 1.5)	“... the provision of information to assist in a user’s assessment of the efficient and effective use of funds and other resources.”
UK Charities Commission (<i>Accounting And Reporting By Charities: Statement of Recommended Practice</i> , 2005, paragraph 10, page 1)	“... to discharge the charity trustee’s duty of public accountability and stewardship.”
US Governmental Accounting Standards Board (GASB) (<i>Basic Facts about Service Efforts and Accomplishments Reporting</i> , www.gasb.org/SEA_fact_sheet_FINAL.pdf, page 1)	“... to know how efficiently government services were provided and how effective those services were.”
US CPA Journal (<i>SEA Performance Reporting – GASB’s Focus on Accountability for Results Stirs Controversy</i> , pages 1-2, January 2008, Dean Michael Mead)	“An objective of financial statements for governmental and not-for-profit organizations is to provide information useful for evaluating the effectiveness of the management of resources in achieving the organization’s goals. Performance measures should be quantified in terms of identified goals.”
Canada Public Sector Accounting Board (PSAB) (SORP-2 <i>Public Performance Reporting</i> , paragraph 3)	“... to explain in a clear and concise manner the extent to which intended goals and objectives were achieved and at what cost. ... there is now an increased focus on what is actually being achieved with the resources consumed, in relation to what was planned.”
PricewaterhouseCoopers Australia (PwC) (Transparency Awards Evaluation Criteria, PwC website: Foundation/Transparency Awards/Evaluation Criteria)	“... demonstrates how well the organisation understands the community need for their services, executed their strategy, and managed their resources and relationships.”

<p>Australia - <i>Outcome Statements Policy and Approval Process</i> (2009)</p>	<p>“What are outcome statements? Outcome statements articulate Government objectives and serve three main purposes within the financial framework:</p> <ul style="list-style-type: none"> ▪ to explain the purposes for which annual appropriations are approved by the Parliament for use by agencies; ▪ to provide a basis for budgeting and reporting against the use of appropriated funds; and ▪ to measure and assess agency and program non-financial performance in contributing to Government policy objectives . . . <p>What is the purpose of outcome statements? Outcome statements help to address three questions:</p> <ol style="list-style-type: none"> 1. What does government want to achieve? (Outcomes) 2. What activities does government undertake to achieve this? (Programs and activities) 3. How does government monitor its progress towards achieving this? (Performance reporting).”
<p>CPA Australia <i>Financial Reporting by Not-for-Profit Entities</i> (2000)</p>	<p>“Users require information on these to assess performance and make resource allocation decisions because:</p> <ol style="list-style-type: none"> a. The accomplishments of nonbusiness organizations generally cannot be measured in terms of sales, profit, or return on investment. b. Resource providers often are not in a position to have direct knowledge of the goods and services provided when they also are not users or beneficiaries of those goods and services.”
<p>NZ Controller and Auditor-General (OAG) <i>The Auditor-General's observations on the quality of performance reporting</i> (2008)</p>	<p>“6.13 Performance reports, including SSPs, help users to:</p> <ul style="list-style-type: none"> • assess a reporting entity’s service performance and achievements; • assess the reporting entity’s compliance with legislation, regulation, and contractual arrangements as they relate to the assessment of its service performance; and • make decisions about providing resources to, or doing business with, the reporting entity. <p>6.14 As with financial performance reports, non-financial statements fulfil an accountability role and a decision-making role. They can also be used as a framework to help public entities prepare policies about which outputs are likely to lead to which outcomes.”</p>
<p>NZ IAS 1 <i>Presentation of Financial Statements</i> (paragraph NZ 138.2)</p>	<p>NZ 138.2 This Standard refers to the statement in paragraph NZ 138.1 as a “statement of service performance”. The statement might, however, be differently named in legislation. The aim of such statements, by whatever name called, remains the providing of</p> <ol style="list-style-type: none"> (a) narrative and statistics on the entity’s performance in supplying goods and services; and (b) information on the effects on the community of the entity’s existence and operations.
<p>NZ Controller and Auditor-General (OAG) AG-4 <i>The Audit of Service Performance Reports</i> (paragraph 18(o)) (2009)</p>	<p>“<i>Service performance reports</i> – Service performance reports are reports to users that provide primarily non-financial information that records the output delivery performance of an entity against specified measures and targets. This information is usually shown in statements of service performance (or equivalent reports) and is compared with information contained in forecast non-financial performance reports (e.g. Information Supporting the Estimates of Appropriation, Statements of Intent, Statements of Corporate Intent, LTCCPs, and annual plans).</p> <p>Service performance is concerned not only with how well services are delivered (output delivery performance) but also with how effective the services are at achieving the entity’s objectives (achievement of impacts and outcomes). Service performance reports should therefore provide some link to impact and outcome information.”</p>

Paper 4 Appendix B Extracts from explicit frameworks on the relationship of service performance reports to conventional financial statements

Explicit Framework	Link between conventional financial statements and service performance reporting
US Governmental Accounting Standards Board (GASB) (<i>GASB Proposes Suggested Guidelines for Voluntary Reporting of Service Efforts and Accomplishments Performance Information</i> , June 2009, page 1)	“Traditional financial statements provide financial performance information about a government’s fiscal and operational accountability, but they do not provide all the information needed to determine the degree to which a government was successful in helping to maintain or improve the well-being of its citizens by providing services. Information about a government’s service efforts and accomplishments helps to fill this void...”
UK Charities Commission (<i>Accounting And Reporting By Charities: Statement of Recommended Practice</i> , page 2, paragraphs 12-14)	<p>“12. The balance sheet is not necessarily a measure of the wealth of the charity but does show the resources available, what form those resources take and how they are held in the different funds, and provides information about the liquidity of assets and general solvency.</p> <p>13. The Statement of Financial Activities provides information as to how a charity receives and applies its resources to meet its objectives. It is not intended to demonstrate a charity’s efficiency.</p> <p>14. Accounts focus on financial performance and in isolation do not give the reader a perspective of what has been achieved from the activities undertaken and the resources expended in their delivery. The SORP recognises these limitations and places significant weight on the Trustees’ Annual Report to provide a necessary link between objectives, strategies, activities and the achievements that flow from them. Without this information the value of the accounts to the reader may be significantly diminished.”</p>
Canadian - CICA Standards and Guidance Collection <i>The CICA Virtual Professional Library 2008 SORP-2 - Public Performance Reporting statement of recommended practice</i> (Paragraph 68)	“The public performance report should link financial and non-financial information to show how resources and strategies influence results.”
AASB - Statement of Accounting Concepts SAC 2 <i>Objective of General Purpose Financial Reporting</i>	<p>“29 Aspects of the performance of a reporting entity can be measured in financial and non-financial terms ...</p> <p>30 Non-financial measures of performance may also be relevant to users for the purposes identified, particularly in relation to non-business entities. The absence of a profit or rate of return objective for these entities means that financial measures of performance are unlikely to be sufficient to assess fully the extent to which those entities have achieved their objectives, which typically include social as well as financial dimensions. The extent to which non-financial performance measures can be considered to fall within the scope of general purpose financial reporting will be the subject of a separate Statement of Accounting Concepts.”</p>
AASB - <i>Framework for the Preparation and Presentation of Financial Statements</i>	“Aus15.1 In respect of not-for-profit entities, ownership groups and contributors of donations are generally not concerned with obtaining a financial return but are usually more interested in the ability of an entity to achieve its non-financial objectives, which in turn may depend upon the entity’s financial position and financial performance.”
Australia - AAS 27 <i>Financial Reporting by Local Governments</i>	“99 The primary objective of local governments is the provision of goods and services to members of the community, and not the generation of profits. Therefore, non-financial as well as financial measures of performance will be relevant to assessments of the economy, efficiency and effectiveness of local governments in achieving their objectives. This Standard does not require local governments to report non-financial measures of performance. However, local governments are encouraged to report non-financial performance indicators which assist users in assessing the local government’s performance in meeting its government body’s objectives.”
UK Interpretation <i>Statement of Principles for Financial Reporting – Interpretation for Public Benefit Entities</i> issued June 2007	“7.15 Financial statements are often accompanied and complemented by information that does not form part of the financial statements. Examples of such information include ... key performance indicators, such as information on waiting lists, cost of refuse collection per household, and other indicators of a charity’s performance ...”
CPA Australia <i>Financial Reporting by Not-for-Profit Entities</i> (2000)	“The goals of the two objectives are the same but, because of the distinguishing characteristics of nonbusiness organizations, somewhat different information is required to satisfy these goals. Both seek to measure the efforts and accomplishments of the entity but assessment of performance in nonbusiness lacks earnings as a focal measure. This creates the need for information on service efforts and accomplishments.”

<p>NZ Financial Reporting Standards Board (FRSB) (Technical Practice Aid No. 9 <i>Service Performance Reporting</i>, paragraph 3.3)</p>	<p>“In the commercial sector, the primary aim of organisations is to make a profit or to maximise shareholder value. Financial statements assist in assessment of the extent to which organisations are achieving this aim. The situation is rather different for organisations in the public and voluntary sectors. Generally, their aim is to improve the well-being of the community through delivering outputs. These entities normally receive funding from one party but deliver (or arrange to deliver) outputs (goods and services) to third parties. Financial statements provide limited information on output delivery performance, which is particularly important for organisations in the public and voluntary sectors.”</p>
<p>NZ <i>Framework</i>,</p>	<p>NZ 4.1"The IASB <i>Framework</i>, on which this NZ <i>Framework</i> is based, focuses on financial statements. However, financial statements are often presented in conjunction with other information. A financial report may include financial statements, non-financial statements and supplementary information. In adopting this NZ <i>Framework</i> for application to New Zealand entities, and particularly to ensure the relevance of the NZ <i>Framework</i> for public benefit entities, certain aspects have been extended to acknowledge the role of non-financial and supplementary information. These paragraphs are clearly marked." ...</p> <p>NZ 7.1. “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.”</p>

Paper 4 Appendix C Extracts from the frameworks found in practice relating to common terms used in the context of service performance

Source	Accountability
NZ Financial Reporting Standards Board (FRSB) (Technical Practice Aid No. 9 <i>Service performance reporting</i> , Appendix A)	“Accountability is the requirement for one party to account to another party for its performance over a given period.”
Canada Public Sector Accounting Board (PSAB) (SORP-2 <i>Public Performance Reporting</i> , Glossary)	“Accountability is a broad concept that requires the entity to answer to elected officials and the public they represent to justify the raising of public resources and to explain the purposes for which they are used. It includes providing useful information for assessing the performance of an entity.”
NZ <i>Framework</i>	<p>“NZ 14.2. An entity may demonstrate its accountability in relation to its obligations in its financial statements or in non-financial statements and other supplementary information. Accountability requires that an entity reflect the nature and dimensions of performance that are relevant to the entity by:</p> <ul style="list-style-type: none"> (a) identifying the objectives and targets (financial or non-financial) normally established by formal process; and (b) recognising, measuring and disclosing actual achievements in relation to those objectives and targets.”

Source	Goals
Western Australia Government (<i>Treasurer’s Instructions</i> , 904 Key Performance Indicators)	“‘Government Goal’ means an expression of high level policies and/or priorities that support the government’s vision. Government desired outcomes contribute to these goals.”
US Governmental Accounting Standards Board (GASB) (<i>Proposed Suggested Guidelines for Voluntary Reporting – SEA Performance Information</i> , 30 June 2009, page 4, paragraph 10)	“... goals are statements of what a program is striving to achieve in the long term... .”
Canada Public Sector Accounting Board (PSAB) (SORP-2 <i>Public Performance Reporting</i> , Glossary)	“Goals are broad statements that set out a clear long-term and high-level direction indicating what the entity is trying to achieve through its activities.”

Source	Objectives
Tasmanian Department of Treasury and Finance (<i>Performance Information for Management and Accountability Purposes</i> , October 1997)	<p>“The Government’s high level, intended Outcomes for the community.” (Glossary, page 57)</p> <p>“...the actual intentions... for the delivery of the service.” (Glossary, page 53)</p>
NZ Financial Reporting Standards Board (FRSB) (Technical Practice Aid No. 9 <i>Service performance reporting</i> , Appendix A)	“Significant objectives... another term for outcomes.”
US Governmental Accounting Standards Board (GASB) (<i>Proposed Suggested Guidelines for Voluntary Reporting – SEA Performance Information</i> , 30 June 2009, page 4, paragraph 10)	“... objectives are statements of what a program expects to achieve within a defined, shorter period.”
Canada Public Sector Accounting Board (PSAB) (SORP-2 <i>Public Performance Reporting</i> , Glossary)	“Objectives are concise, realistic, results-oriented statements of what will be achieved in the short term toward accomplishing goals.”

Source	Inputs
Tasmanian Department of Treasury and Finance (<i>Performance Information for Management and Accountability Purposes</i> , October 1997, Glossary, page 55)	“Items such as labour, materials, office space and other non capital or non-balance sheet items purchased by the agency for use in producing an Output.”
NZ Financial Reporting Standards Board (FRSB) (Technical Practice Aid No. 9 <i>Service performance reporting</i> , paragraph 4.8 or Appendix A)	“Inputs are the resources used to produce the goods and services which are the outputs of the reporting entity. Examples include: labour, capital assets such as land, buildings and vehicles, cash and other financial assets, and intangible assets such as intellectual property.”
NZ Controller and Auditor-General (OAG) (<i>AG-4 The Audit of Service Performance Reports</i> , paragraph 18, 2009)	“Inputs are the resources used by the entity to produce its outputs.”
NZ IAS 1 <i>Presentation of Financial Statements</i>	“Inputs are the resources used to produce the goods and services which are the outputs of the entity.”
US Governmental Accounting Standards Board (GASB) (<i>Proposed Suggested Guidelines for Voluntary Reporting – SEA Performance Information</i> , June 2009)	<ul style="list-style-type: none"> • Inputs are referred as service efforts. (page 6, paragraph 17) • In the context of ‘input measures’, “Input measures measure the amount of financial and nonfinancial resources applied to a service.” (page 7, Figure 2)
Canada Public Sector Accounting Board (PSAB) (SORP-2 <i>Public Performance Reporting</i> , Glossary)	“Inputs are the financial and non-financial resources and authorities given to the entity to carry out activities, produce outputs and accomplish results. Inputs include items such as tax dollars, user fees, transfers, human resources, capital and information.”
Productivity Commissions (<i>Draft Research Report - Contribution of the Not-for-Profit Sector</i> , 14 October 2009, Glossary)	“Any resource used by a not-for-profit organisation to achieve its objectives.”

Source	Outputs
Tasmanian Department of Treasury and Finance (<i>Performance Information for Management and Accountability Purposes</i> , October 1997, Glossary, page 55)	“Goods and services provided by an agency for clients outside the agency”
Northern Territory Government (<i>Treasurer’s Directions – Framework: Working for Outcomes</i> , 31 March 2006, paragraph F2.1.2)	“Outputs are the services provided or the goods produced by an Agency for users external to the Agency. ...”
NZ Financial Reporting Standards Board (FRSB) (Technical Practice Aid No. 9 <i>Service performance reporting</i> , paragraph 4.3 or Appendix A))	“Outputs are final goods and services of the entity”
NZ Controller and Auditor-General (OAG) (<i>AG-4 The Audit of Service Performance Reports</i> , paragraph 18, 2009)	“Outputs are the goods and services produced by the reporting entity. The term refers only to the goods and services produced for third parties; it excludes goods and services consumed within the reporting entity (such as services provided by legal, research, HR, and IT functions to other functional areas within the same entity, which are often referred to as “internal outputs”).”
NZ IAS 1 <i>Presentation of Financial Statements</i>	“Outputs are the goods and services produced by the entity.”
UK Charities Commission (<i>Accounting And Reporting By Charities: Statement of Recommended Practice</i> , 2005, page 5, paragraph 35)	“Outputs is referred to as what the charity has done.”
US Governmental Accounting Standards Board (GASB) (<i>Proposed Suggested Guidelines for Voluntary Reporting – SEA Performance Information</i> , June 2009)	<ul style="list-style-type: none"> • “... the service being provided...” (page 5, paragraph 11) • Outputs and outcomes are referred as service accomplishments. (page 6, paragraph 17) • In the context of ‘output measures’, “output measures measure the quantity of services provided a quality requirement may be included.” (page 7, figure 2)
Canada Public Sector Accounting Board (PSAB) (<i>SORP-2 Public Performance Reporting</i> , Glossary)	“Outputs are the direct products and services produced by the activities of the entity. An example of an output is the posting of road signs indicating dangerous zones.”
Institute of Chartered Accountants Australia (ICAA) (<i>Enhancing not-for-profit annual and financial reporting</i> , March 2009, page 8)	“Outputs is portrayed as what the not-for-profit entity has done.”
Productivity Commissions (Draft Research Report - Contribution of the Not-for-Profit Sector, 14 October 2009, Glossary)	“The product of a not-for-profit activity (for example, the number of people trained in a program or the number of performances of a community orchestra). Outputs lead to outcomes.”

Source	Outcomes
Tasmanian Department of Treasury and Finance (<i>Performance Information for Management and Accountability Purposes</i> , October 1997, Glossary, page 55)	“1. High level and long term policy objectives of the Government derived from the Government’s perception of community expectations. ... 2. The short to medium term results desired by Government that are expected to be achieved largely through the resourcing of Government agencies to produce specified Outputs. ... 3. Intended impact or effort on the community of the activities and policies of Government.”
Western Australia Government (<i>Treasurer’s Instructions</i> , page 1, 904 Key Performance Indicators)	“... means the effect, impact, result on or consequence for the community, environment or target clients of government services.”
Northern Territory Government (<i>Treasurer’s Directions – Framework: Working for Outcomes</i> , 31 March 2006, paragraph F2.1.2(iii))	“Outcomes represent the objectives that the Government is seeking to achieve on behalf of the community through the delivery of outputs. Thus outcomes reflect the Government’s policy direction and describe the reason why particular outputs are delivered.”
NZ Financial Reporting Standards Board (FRSB) (Technical Practice Aid No. 9 <i>Service performance reporting</i> , paragraph 4.10 or Appendix A))	“Outcomes are the impacts on, or consequences for, the community resulting from the existence and operations of the reporting entity”
NZ IAS 1 <i>Presentation of Financial Statements</i>	“Outcomes are the impacts on, or consequences for, the community resulting from the existence and operations of the entity.”
NZ Controller and Auditor-General (OAG) (<i>AG-4 The Audit of Service Performance Reports</i> , paragraph 18, 2009)	“Outcomes refer to the state, condition, impacts on, or consequences for the community, society, economy, or environment resulting from the existence and operations of the reporting entity. (The outcomes sought provide the rationale for the range of outputs delivered by the entity.)”
New Zealand Public Finance Act 1989	“Outcome means a state or condition of society, the economy, or the environment; and includes a change in that state or condition.”
UK Charities Commission (<i>Accounting And Reporting By Charities: Statement of Recommended Practice</i> , 2005, page 5, paragraph 35)	“Outcomes is referred to as what the charity has achieved.”
US Governmental Accounting Standards Board (GASB) (<i>Proposed Suggested Guidelines for Voluntary Reporting – SEA Performance Information</i> , June 2009)	<ul style="list-style-type: none"> • Outputs and outcomes are referred as service accomplishments. (page 6, paragraph 17) • In the context of ‘outcome measures’, “outcome measures measure the results associated with the provision of services; may include measures of public perceptions of results.” (page 7, Figure 2)
Canada Public Sector Accounting Board (PSAB) (<i>SORP-2 Public Performance Reporting</i> , Glossary)	<p>“Outcomes are the consequences of those outputs that can be plausibly attributed to them. Outcomes can be distinguished in three ways:</p> <ul style="list-style-type: none"> • Immediate outcomes are the first level of outcome of the entity’s activities. These outcomes are in large part directly attributable to the outputs over the short term. They may include an increase in awareness among a target population. An example of an immediate outcome is reduced speeding on the highway due to sign postage indicating dangerous zones. • Intermediate outcomes are usually achieved in the medium term and are expected to logically occur once immediate outcomes have been achieved. This level of outcome often refers to a change in behaviour in a target population. An example of an intermediate outcome is a reduction in the number of accidents on highways. • Ultimate outcomes (end or final outcomes) are the highest level of outcomes that can be reasonably attributed to activities. They are generally long-term in nature and changes at this level are normally attributable to a variety of factors, some outside the control of the entity. This level of outcome often refers to a change of state of the target population or the whole population for which the entity is responsible. An example of an ultimate outcome is safer highway systems.”
Institute of Chartered Accountants Australia (ICAA) (<i>Enhancing not-for-profit annual and financial reporting</i> , March 2009, page 25, section 4.4)	“Outcomes are the impacts on or the consequences for the community resulting from the NFP’s activities.”
Productivity Commissions (Draft Research Report - Contribution of the Not-for-Profit Sector, 14 October 2009, Glossary)	“The effects on a participant during or after their involvement in a not-for-profit activity. Outcomes can relate to knowledge, skills, attitudes, values, behaviour, condition or status. Outcomes can be positive (deliver a benefit) or negative (impose a cost) on individuals.”

Source	Activities
Tasmanian Department of Treasury and Finance (<i>Performance Information for Management and Accountability Purposes</i> , October 1997, Glossary, page 53)	“What an agency does to convert inputs to Outputs.”
NZ Financial Reporting Standards Board (FRSB) (Technical Practice Aid No. 9 <i>Service performance reporting</i> , Appendix A)	“Significant activities... another term for outputs/output classes.”
Canada Public Sector Accounting Board (PSAB) (SORP-2 <i>Public Performance Reporting</i> , Glossary)	“Activities are what the entity does to produce the outputs that contribute to the outcomes. Activities include the processes and initiatives used by the entity to produce its outputs.”
Institute of Chartered Accountants Australia (ICAA) (<i>Enhancing not-for-profit annual and financial reporting</i> , March 2009, page 11)	“Activities are portrayed as the programs ran, projects undertook, services provided, and grants made.”

Source	Service
Western Australia Government (<i>Treasurer’s Instructions</i> , page 1, 904 Key Performance Indicators)	“... means the supply of an activity or good to a user external to the agency providing the service. Services comprise programs and outputs.”

Source	Performance [this table is a mixture of terms. are you trying to define performance generally or performance measures/indicators?]
Tasmanian Department of Treasury and Finance (<i>Performance Information for Management and Accountability Purposes</i> , October 1997, Glossary, page 55)	“Performance... achievement in relation to objectives, plans or intentions.”
Western Australia Government (<i>Treasurer’s Instructions</i> , 904 Key Performance Indicators)	“‘Key Performance Indicator’ provides an overview of the critical or material aspects of outcome achievement or service provision.”
Northern Territory Government (<i>Treasurer’s Directions – Framework: Working for Outcomes</i> , 31 March 2006, paragraph F2.1.3-2.1.3(v))	<ul style="list-style-type: none"> • “Agency performance in the delivery of outputs is to be measured in relation to the quantity, quality, timeliness and cost of outputs.” • In the context of what is performance measures, “... Performance measures assist decision makers, both within and outside the Agency, in determining whether Territory resources are being applied in an efficient and effective manner to achieve Government outcomes. Performance measures are grouped into four categories: quantity, quality, timeliness and cost.”
NZ Financial Reporting Standards Board (FRSB) (Technical Practice Aid No. 9 <i>Service performance reporting</i> , Appendix A, page 47)	“Performance measures are the characteristics of outputs that are important to the purchaser and establish how an entity’s delivery of its outputs will be assessed. ...”
NZ Financial Reporting Standards Board (FRSB) (Technical Practice Aid No. 9 <i>Service performance reporting</i> , page 15, Table 1)	Not in TPA-9. No Table 1 in TPA-9.
NZ <i>Framework</i>	“NZ 20.5. Service performance is the term used to describe an entity’s performance in meeting its objectives of supplying goods and services. An entity’s service performance is assessed by comparing the entity’s service performance results with its service performance objectives. Service performance objectives and results are reported in non-financial terms, such as quantities of goods and services provided”
NZ Controller and Auditor-General (OAG) (<i>AG-4 The Audit of Service Performance Reports</i> , paragraph 18, 2009)	<p>“(1) Performance – Performance refers to how well an entity performs against its objectives. It is a comprehensive concept, as performance can relate to a wide range of elements, such as outcomes (including impacts or other intermediate-level outcomes), outputs, inputs, and capability. Performance may also be expressed in relational terms, such as efficiency (i.e. relationship of inputs to outputs) or effectiveness (i.e. relationship of outputs to outcomes).</p> <p>The term “service performance” relates specifically to outputs.”</p>
UK Charities Commission (<i>Accounting And Reporting By Charities: Statement of Recommended Practice</i> , 2005, page 1, paragraph 10)	<p>In the context of ‘service efforts and accomplishments (SEA) performance measures’,</p> <p>“SEA performance measures provide indicators of the level of accomplishment of those goals and objectives</p>
Canada Public Sector Accounting Board (PSAB) (SORP-2 <i>Public Performance Reporting</i> , Glossary)	“Performance refers to what the entity did with its resources to achieve its results and the assessment of those results against what the entity intended to achieve. Performance is often described in terms of effort, capacity and intent.”

Source	Results
US Governmental Accounting Standards Board (GASB) (<i>Proposed Suggested Guidelines for Voluntary Reporting – SEA Performance Information</i> , 30 June 2009, page 8, paragraph 23)	“... results need to present a balanced view, including both positive and negative aspects of a government’s performance.”
Canada Public Sector Accounting Board (PSAB) (SORP-2 <i>Public Performance Reporting</i> , Glossary)	“Results are both the outputs produced and outcomes achieved by the entity. Results reflect the purpose for which an activity is performed as set by the goals and objectives. Results can be either actual results or planned/expected results.”

Source	Efficiency
Tasmanian Department of Treasury and Finance (<i>Performance Information for Management and Accountability Purposes</i> , October 1997, Glossary, page 54)	“... is about producing more services or better quality services with the same or fewer resources. ... is determined mainly by the internal structure and operations of an organisation. Efficiency indicators relate resource inputs to resulting outputs. They indicate how well an activity or operation is being performed. Measures of efficiency can focus on either operational or outcome efficiency.”
Western Australia Government (<i>Treasurer’s Instructions</i> , page 1, 904 Key Performance Indicators)	“Key efficiency indicator relates to a service to the level of resource input required to deliver it. ... Physical efficiency (i.e. productivity) indicators that relate physical inputs to physical outputs may also be used, for example, units of output per machine hour.”
NZ Financial Reporting Standards Board (FRSB) (Technical Practice Aid No. 9 <i>Service performance reporting</i> , page 41, paragraph 6.12(a))	“... efficiencies... (in general, delivering the same level of outputs with fewer resources)...”
US Governmental Accounting Standards Board (GASB) (<i>Proposed Suggested Guidelines for Voluntary Reporting – SEA Performance Information</i> , June 2009, page 7)	In the context of ‘efficiency measures’, “Efficiency measures measure the resources used per unit of output, or the cost per unit of output”
Productivity Commissions (Draft Research Report - Contribution of the Not-for-Profit Sector, 14 October 2009, Glossary and page 2.17)	“Production or technical efficiency is achieving the greatest output for a given level of inputs—how well inputs are turned into outputs. Allocative efficiency is achieving the outputs that give the greatest benefits for a given level of inputs available—which is putting resources to the uses that deliver the best outcomes for the community.”
NZ Controller and Auditor-General (OAG) (AG-4 <i>The Audit of Service Performance Reports</i> , paragraph 18, 2009)	In the context of the definition of performance: “Performance may also be expressed in relational terms, such as efficiency (i.e. relationship of inputs to outputs) or effectiveness (i.e. relationship of outputs to outcomes).”

Source	Effectiveness
Tasmanian Department of Treasury and Finance (<i>Performance Information for Management and Accountability Purposes</i> , October 1997, Glossary, page 54)	“The extent to which objectives are being achieved. It is determined by the relationship between an organisation and its external environment. Effectiveness indicators relate outputs to impacts and to outcomes. They can measure the steps along the way to achieving an overall objective or outcomes, and test whether outputs have the characteristics required for achieving a desired objective or a government outcome.”
Western Australia Government (<i>Treasurer’s Instructions</i> , page 1, 904 Key Performance Indicators)	“Key effectiveness indicator provides information on the extent of, or progress in a reporting period towards achievement of an agency level government desired outcome through the delivery of a service or services”
NZ Financial Reporting Standards Board (FRSB) (Technical Practice Aid No. 9 <i>Service performance reporting</i> , page 41, paragraph 6.12(b))	“... effectiveness (that is, the outcomes that are achieved through output delivery)...”
Productivity Commissions (Draft Research Report - Contribution of the Not-for-Profit Sector, 14 October 2009, Glossary)	In the context of ‘effectiveness measures’, “Effectiveness... extent of achievement of the stated objectives.”
NZ Controller and Auditor-General (OAG) (AG-4 <i>The Audit of Service Performance Reports</i> , paragraph 18, 2009)	In the context of the definition of performance: "Performance may also be expressed in relational terms, such as efficiency (i.e. relationship of inputs to outputs) or effectiveness (i.e. relationship of outputs to outcomes)."

Source	Service Performance Reporting
NZ Controller and Auditor-General (OAG) (AG-4 <i>The Audit of Service Performance Reports</i> , paragraph 18, 2009)	“(o) <i>Service performance reports</i> – Service performance reports are reports to users that provide primarily non-financial information that records the output delivery performance of an entity against specified measures and targets. This information is usually shown in statements of service performance (or equivalent reports) and is compared with information contained in forecast non-financial performance reports (e.g. Information Supporting the Estimates of Appropriation, Statements of Intent, Statements of Corporate Intent, LTCCPs, and annual plans). Service performance is concerned not only with how well services are delivered (output delivery performance) but also with how effective the services are at achieving the entity’s objectives (achievement of impacts and outcomes). Service performance reports should therefore provide some link to impact and outcome information.”
NZ Controller and Auditor-General (OAG) (AG-4 <i>The Audit of Service Performance Reports</i> , paragraph 18, 2009)	“(h) <i>Non-financial performance reports</i> – Non-financial performance reports are reports to users that provide primarily non-financial information that records the performance of an entity against specified objectives. They can encompass a comprehensive range of performance elements (incl. outcomes, impacts, outputs, inputs, and capability), and the information can be presented in various statements (e.g. Information Supporting the Estimates of Appropriation, Statements of Intent, Statements of Corporate Intent, LTCCPs, annual plans, statements of service performance, and other statements within annual reports). “Service performance reports” are non-financial reports concerned primarily with the reporting of output performance information.”

Paper 4 Appendix D Extracts from explicit frameworks relating to Qualitative Characteristics of Service Performance Reports

Explicit Framework	Qualitative characteristics of service performance reports
US - GASB Concept Statement No. 1 <i>Objectives of Financial Reporting</i>	“relevance, understandability, comparability, timeliness, consistency and reliability.”
Canada - The Statement of Recommended Practice (SORP) 2 <i>Public Performance Reporting</i> , issued by the Public Sector Accounting Board (PSAB) in September 2006	Paragraph 21 states that “a public performance report should communicate information that is credible and that embodies the characteristics of reliability and validity, relevance, fairness, comparability and consistency, and understandability.”
Australia – ANAO - <i>Better Practice Guide: Better Practice in Annual Performance Reporting</i> in 2004	“Figure 3.1: Features of a good performance reporting framework: . . . ○ use valid, accurate and reliable measures and maintain information on methodology and sources; . . .”
IASB <i>Framework</i> (current)	“Principal characteristics: Understandability Relevance Reliability Comparability Constraints: Timeliness Benefit/cost”
NZ <i>Framework</i> (based on current IASB <i>Framework</i>)	“NZ 101.3. The quality of the information presented in non-financial and supplementary information should be considered with regard to the qualitative characteristics and constraints on those qualitative characteristics discussed in paragraphs 24 to 45 of this <i>NZ Framework</i> .”
NZ Controller and Auditor-General (OAG) (<i>AG-4 The Audit of Service Performance Reports</i> , 2009)	The Office of the Controller and Auditor General has developed guidance on the application of the qualitative characteristics in the NZ Framework to public sector service performance information. The OAG’s views were published in a 2008 discussion paper (discussed in agenda paper B5.1). The 2009 version of the New Zealand Auditing Standard, AG-4 The Audit of Service Performance Reports (paragraphs A15 to A25) provides guidance on the meaning of the qualitative characteristics as they apply to non-financial performance reports.
IASB <i>Framework</i> (forthcoming - final expected Q4 2009)	“ <i>Fundamental</i> : Relevance Faithful representation <i>Enhancing</i> : Comparability Verifiability Timeliness Understandability Constraints: Materiality Cost”
IPSASB <i>Framework</i> (forthcoming - ED expected 2010)	Same as IASB but no distinction between fundamental and enhancing characteristics. “Relevance Faithful representation Comparability Verifiability Timeliness Understandability Constraints: Materiality Cost”
Office of the Auditor General of Canada <i>Criteria for the Assessment of the Fairness and Reliability of Performance Information</i>	“Provides information on the criteria the Office uses to assess the fairness and reliability of performance information in annual reports. Fairness criterion: Relevant, meaningful, attributable, balanced Reliability criterion: Reliable”

Paper 4 Appendix E Extracts from relevant documents relating to the type of information included in service performance reports

Source	Types of information included in service performance reports
US GASB Concept Statement No. 1 <i>Objectives of Financial Reporting</i>	<p>“5. The essential components that set forth the types of information an effective SEA report needs to contain in order to provide users with information that will assist them in assessing the efficiency and effectiveness of government services are as follows:</p> <ol style="list-style-type: none"> a. Purpose and scope b. Major goals and objectives c. Key measures of SEA performance d. Discussion and analysis of results and challenges.”
Canada - <i>Transparency and Accountability Act (the Act) 2004</i>	<p>“Paragraph 9 of the Act requires the government and government entities to prepare and submit an annual report on its preceding fiscal year. The annual report compares actual results of the entity’s strategic plan (or business or activity plan) with the projected results of that plan for the applicable fiscal year, and provides explanation on the variance (paragraph 9(3)-(4) of the Act)”</p>
Canada - The Statement of Recommended Practice (SORP) 2 <i>Public Performance Reporting</i> , issued by the Public Sector Accounting Board (PSAB) in September 2006	<p>When preparing a public performance report, paragraphs 34-81 of SORP 2 recommend that the report:</p> <ol style="list-style-type: none"> “(a) focuses on the few critical aspects of performance including the commitments of the entity and matters of concern raised in prior periods, the financial areas that are significant, the essentials to achieving goals and objectives and policies or strategies that impact other entities; (b) describes the strategic direction of the entity including the entity’s high-level priorities and long-term goals as stated in public policy announcements; (c) describes the planned results (in terms of outputs and outcomes) for the reporting period and identifies the source of the commitments; (d) describes actual results and compares them with planned results, explaining any significant variances; (e) provides comparative information about trends, benchmarks, baseline data or the performance of other similar organisations where having these comparisons would be useful to users in interpreting and using the information provided; (f) identifies significant lessons learned (as a result of significant variances) during the reporting period and the implications arising from them (i.e. how the issue is being addressed); (g) includes information about key factors critical to understanding performance, including significant risks, capacity considerations and other factors that have had an impact on performance and results, and the nature of the impact; (h) links financial and non-financial information to show how resources and strategies influence results; and (i) discloses the basis on which it has been prepared.”
Canada - <i>Reporting Principles – Taking Public Performance Reporting to a New Level report</i> issued by the Canadian Comprehensive Auditing Foundation (CCAF)	<p>“Principle 4 Explain key capacity considerations – by putting results in proper context by relating results achieved to ongoing capacity to meet or improve on current performance expectations by:</p> <ol style="list-style-type: none"> (i) explaining what the key risks are and how risk has influenced choices made in relation to policy, goals and performance expectations; (ii) relating results achieved to the risks and level of risk accepted; and (iii) describing other key performance factors that are central for users to understand why the entity is doing what it is doing and interpreting the meaning and significance of the performance information being reported.”
IASB - ED/2009/6 <i>Management Commentary</i> issued in June 2009	<p>“36 The disclosures of performance measures and indicators (both financial and non-financial) that are used by management to assess progress against its stated objectives can help users of the financial reports assess the degree to which goals and objectives are being achieved. Performance measures are quantified measurements that reflect the critical success factors of an entity. Indicators can be narrative evidence describing how the business is managed or quantified measures that provide indirect evidence of performance.</p> <p>37 The performance measures and indicators that are most important to understanding an entity are those that management uses to manage that entity. The performance measures and indicators will usually reflect the industry in which the entity operates. Comparability is enhanced if the performance measures and indicators are accepted and used widely, whether within an industry or more generally.</p> <p>38 ... When management changes the performance measures and indicators used, the changes should be identified and explained.”</p>

<p>The Charity Commission for England and Wales issued a Statement of Recommended Practice (SORP) <i>Accounting And Reporting By Charities</i> (revised 2005).</p>	<p>“47 ... the report should provide:</p> <ul style="list-style-type: none"> (a) A summary of the objects of the charity as set out in its governing document. (b) An explanation of the charity’s aims including the changes or differences it seeks to make through its activities. (c) An explanation of the charity’s main objectives for the year. (d) An explanation of the charity’s strategies for achieving its stated objectives. (e) Details of significant activities (including its main programmes, projects, or services provided) that contribute to the achievement of the stated objectives. ... <p>48 ... the report should contain:</p> <ul style="list-style-type: none"> (a) A review of charitable activities undertaken that explains the performance achieved against objectives set. Where qualitative or quantitative information is used to assess the outcome of activities, a summary of the measures or indicators used to assess achievement should be included. (b) Where material fundraising activities are undertaken, details of the performance achieved against fundraising objectives set ... (c) Where material investments are held, details of the investment performance achieved against the investment objectives set. (d) Comment on those factors within and outside the charity’s control which are relevant to the achievement of its objectives; these might include relationship with employees, users, beneficiaries, funders and the charity’s position in the wider community.”
<p>Australia - <i>Outcome Statements Policy and Approval Process</i> (2009)</p>	<p>“Key Principles for outcome statements An outcome statement should be specific, focused, and easily interpreted, and:</p> <ol style="list-style-type: none"> 1. identify the intended result(s) of the agency, with the level of achievement against the intended result(s) capable of being measured; 2. specify the target group(s) where this group is narrower than ‘Australia’ or ‘Australians’; and 3. specify the activities undertaken by the agency that contribute to the achievement of the intended result(s).” (page 3)
<p>Australia - <i>Requirements for Annual Reports</i> (17 June 2009) published by the Department of Prime Minister and Cabinet and approved by the Parliament by the Joint Committee of Public Accounts and Audit</p>	<p>“Part 3 – Annual Report Requirements</p> <p>10 Departmental Overview</p> <p>(1) The annual report must provide a description of the department, including:</p> <ul style="list-style-type: none"> (a) Role and functions; (b) Organisational structure; and (c) Outcome and output structure. <p>(2) The outcome and output structure must be consistent or reconcilable with information in the Portfolio Budget Statements and the Portfolio Additional Estimate Statements relating to the department for the year covered by the annual report. Where a department is reporting using a different structure, it must detail the variation and give the reasons for the change.</p> <p>(3) The annual report of a portfolio department must include an outline of the structure of the portfolio.</p> <p>11 Report on Performance</p> <p>The annual report must include:</p> <p>(1) a review of how the department has performed during the year in relation to the efficiency of the department’s outputs and their effectiveness in terms of achieving the planned outcomes. Descriptions of processes and activities should be avoided. Rather, reporting should be aimed at providing an assessment of how far the agency has progressed towards outcomes. The review must include:</p> <ul style="list-style-type: none"> (a) reporting of actual results against the specific performance standards for the outcomes and the outputs set out in the Portfolio Budget Statements/Portfolio Additional Estimate Statements. Relevant information should also be supplied for administered items. A tabular presentation of information, in landscape format, may be helpful. Reports should succinctly cover progress towards outcomes and the extent to which the agency is wholly or partly responsible for the outcome; (b) if the department is appropriated funds to deliver outcomes through purchaser/provider arrangements, the review should also report on the performance of those arrangements against targets set in the Portfolio Budget Statements; and (c) a concise narrative discussion and analysis of the detailed performance information at an appropriate level of reporting. Visual aids such as charts and graphs may assist the reader. While departments must address how they have performed in contributing to outcomes, departments have discretion as to the level of reporting below outcomes, having regard to materiality, parliamentary and public interest, and reader expectations...” (pages 5-6)

<p>Australia – Audit office of NSW - <i>Better Practice Guide: A guide to preparing performance information for annual reports</i> (November 2000)</p>	<p>“Better Practice Principles</p> <ol style="list-style-type: none"> 1. <i>Objectives are clear and measurable</i> Aims and objectives should reflect the enabling legislation and government policy. Objectives need to: be specific; define impacts on the community, environment or the economy; and be measurable. 2. <i>Focussing on results and outcomes</i> An annual report should provide a clear discussion on what the agency planned to achieve, did achieve and plans to achieve in the future. This includes reporting on: outputs to be delivered; outcomes to be achieved; the efficiency of service delivery outputs; and the effectiveness of programs. Reporting outcomes enables readers to judge the effectiveness of the agency. Therefore in annual reports, agencies should: <ul style="list-style-type: none"> ▪ report results and outcomes not just activities and outputs ▪ relate outcomes directly to objectives ▪ express outcomes in terms of impacts on the community ▪ relate outcomes to goals and targets. 3. <i>Setting performance targets</i> Targets set by an agency provide measures against which readers can assess the success or otherwise of the agency’s performance. Agencies need to report: actual results against the target; the reasons for any significant variance from the target; actions taken or planned to be taken to address unfavourable variances 4. <i>Reporting is complete and informative</i> Performance reporting is complete and informative if: it covers key functions and programs of the agency (using key performance indicators); reports on performance against targets identified in the previous annual report; it includes honest coverage of both successes and setbacks; it includes trend data (for example, multi-year comparative tables and/or graphs ideally over the last three years) and a discussion and analysis of changes over time 5. <i>Explaining changes over time</i> Agencies should report performance information consistently from one year to the next. Consistency builds reader confidence that performance is not being selectively reported and allows results to be compared from one year to the next 6. <i>Providing evidence of value for money/benchmarking</i> In reporting value for money agencies should: define the population or client base the program is designed for; identify the main outputs and outcomes provided to clients; disclose the costs involved in providing each of the main outputs (and where possible) outcomes; benchmark their operations against similar organisations in other jurisdictions or the private sector 7. <i>Discussing strategies, risks and external factors</i> Often factors outside the control of the agency affect its performance. Best practice suggests agencies discuss these issues in their annual report and provide readers with information on: the agency’s operating environment, that is external and internal factors that affect or constrain the agency’s day to day activities; internal and external factors that might impact on success, both present and those likely in the future; the agency’s response to issues of significant public interest; the future operating environment and developments.”
<p>Australia – NSW - Auditor-General’s Report: <i>Performance Audit Agency Use of Performance Information to Manage Services</i>, June 2006, pg 17</p>	<p>“Performance measures should provide data on all elements of service delivery, that is inputs, outputs and results or effectiveness. Timeliness, quality and the cost of services should also be monitored.”</p>
<p>Australia – ANAO - <i>Better Practice Guide: Better Practice in Annual Performance Reporting</i> in 2004</p>	<p>“Figure 3.1: Features of a good performance reporting framework:</p> <ul style="list-style-type: none"> ▪ Specify desired outcomes (including any intermediate outcomes): <ul style="list-style-type: none"> ○ address any shared outcomes and provide information on the agency’s contribution; and ○ identify the contributing departmental outputs and administered items (usually programmes), and assess their contribution to the outcome(s). ▪ Identify measurable performance indicators for effectiveness at the outcome level, and, at the departmental output and administered item programme level: <ul style="list-style-type: none"> ○ use valid, accurate and reliable measures and maintain information on methodology and sources; ○ establish links between financial and non-financial performance information and assess the efficiency and cost effectiveness of the agency; and ○ use researched and realistic targets, standards and bases for comparison including multi-year targets where necessary.” (page 8)

<p>Australia – Victoria - Standing Direction 4.2 <i>Reporting Requirements in terms of Part 7 of the FMA for the Report of Operations</i></p>	<p>“Requirements under Standing Direction 4.2</p> <p>a) The Report of Operations should include qualitative and quantitative information on the operations of the public sector agency and should be prepared on a basis consistent with the financial report prepared by the public sector agency pursuant to the FMA. This report should provide users with general information about the entity and its activities, operational highlights for the reporting period, future initiatives and other relevant information not included in the financial report. . .</p> <p>d) The Report of Operations must be signed and dated by the Accountable Officer in the case of a government department or, in the case of any other public sector agency, a member of the Responsible Body.</p> <p>e) Government departments must include a comparison of the output targets specified in the State Budget with actual performance against those targets.” (page 10 of the <i>Model Report</i>)</p> <p>“Legislative and Documented References</p> <p>Standing Direction 4.2 (k) requires entities to report on actual output performance for a Government department that includes a comparison of the output targets specified in the State Budget with actual performance against those targets.</p> <p>Financial Reporting Direction 22B states that the report should include a ‘summary of the entity’s operational and budgetary objectives, including performance against the objectives and significant achievements’ for the current reporting period. This section also adds to a department’s fulfilment of the requirement in Financial Report Direction 22B to detail the ‘objectives, functions, powers and duties’ of the entity (which is fulfilled in the earlier ‘Year in Review’ section).” (page 17 of the <i>Model Report</i>)</p> <p>“Guidance</p> <p>An introduction to this section should include an overview of the key output areas, as articulated in the budget papers, plus any explanation of changes to the output structure that occurred during the year (covered above in ‘<i>Structural Changes to the Department during 2008-09</i>’).</p> <p>Departmental output performance reporting should therefore include:</p> <ul style="list-style-type: none"> ▪ An overview of the key output area for which a department is responsible (as set out in the <i>Budget Paper No. 3: Service Delivery</i>) for that financial year; and ▪ Detailed output performance delivery information, in particular: <ul style="list-style-type: none"> ○ the actual result on an output by output basis against the budget target (as per <i>Budget Paper No. 3</i>) and the actual result for each quantity, quality, timeliness and cost performance measure. The output performance measures should be presented as published in the department’s output statements in <i>Budget Paper No. 3</i>. If new output performance measures are introduced during the course of the financial year, these should also be included, explaining why they are new; ○ appropriate commentary to explain the cause of significant or material variances between the <i>Budget Paper No. 3</i> targets and actual results. The commentary provided should be sufficient to assist the reader in understanding variances between actual and targeted results; and ○ explanation of any changes to the output structure that have occurred during the financial year, such as changes arising from Machinery of Government administrative changes and any other changes (i.e. new output created due to government policy decision, output name change from the previous financial year, consolidation or disaggregation of outputs from the previous financial year). <p>This detail may be shown in table form with some commentary on those targets that were met or exceeded and an explanation of any targets not met, as noted below.</p> <p><i>Significant or material variances in output performance reporting</i></p> <p>The following criteria is intended as general guidance for entities in determining whether or not to provide commentary to explain variations between budget and actual results:</p> <ul style="list-style-type: none"> ▪ 10 per cent increase or decrease from budget; ▪ a variance that arises from the implementation of new policy or existing policy, government decisions or actions; ▪ a variance that arises from other third party influences (i.e. Commonwealth, consumer trends, etc); and ▪ a variance that may be of public interest.” (page 18 of the <i>Model Report</i>)
<p>Australia – ACT - <i>Financial Management Act 1996</i> (FMA)</p>	<p>“(a) The statement must compare the department’s actual performance in providing each class of outputs within the budget or a revised budget by section 19D of the FMA or a supplementary budget for the year, and state the extent to which the output performance criteria set out in the budget, were met. (<i>Section 30A of FMA 1996</i>)</p> <p>(b) A department’s Statement of Performance must have endorsed on, or attached to it, a Statement of Responsibility signed by the responsible chief executive. The Statement</p>

	<p>of Responsibility must state that, in the chief executive’s opinion, the Statement of Performance fairly reflects the performance of the department in delivering each class of outputs during the financial year. (<i>Section 30B of FMA 1996</i>)”</p>
<p>Australia – ACT Department of Treasury (Accounting Branch) <i>Statement of Performance for Agencies: Better Practice Guideline</i></p>	<p>“3.1 Departments and Territory Authorities Prescribed for Outputs From 2007-08 the Statement of Performance will report against the following output indicator:</p> <ul style="list-style-type: none"> ▪ <i>Accountability Indicators</i> - performance measures that measure a department’s effectiveness and efficiency in delivering outputs. <p>3.2.1 Output Information The Statement of Performance should include the following information for each output:</p> <ul style="list-style-type: none"> ▪ <i>Description of Output</i> Output descriptions are included to provide users with more information in relation to the outputs and services being provided by agencies. ▪ <i>Output Cost</i> The following information is required: <ul style="list-style-type: none"> ○ the original cost of the output as provided in the original budget papers; ○ the amended cost of the output, where the cost has been amended by either a Supplementary Appropriation Act (section 13A ‘Amendment of Budgets for Supplementary Appropriation’) or a section 19D instrument⁸ (‘Amendment of Performance Criteria’); ○ where a target has been amended, the reason for the amendment should be disclosed by way of note; ○ the actual cost of the output at the end of the financial year; ○ the percentage variance from the amended cost of the output; and ○ an explanation of material variances from the amended cost. ▪ <i>Government Payment for Outputs (GPO)</i> The following information is required: <ul style="list-style-type: none"> ○ the original GPO as provided in the original budget papers; ○ the amended GPO, where GPO has been amended by either a Supplementary Appropriation Act (section 13A ‘Amendment of Budgets for Supplementary Appropriation’) or a section 19D instrument⁹ (‘Amendment of Performance Criteria’); ○ where a target has been amended, the reason for the amendment should be disclosed by way of note; ○ the actual GPO received for the output at the end of the financial year; ○ the percentage variance from the amended GPO; and ○ an explanation of material variances from the amended GPO. <p>3.2.2 Accountability Indicators Accountability performance indicators measure a department’s effectiveness and efficiency in delivering its outputs, and may be measures of outcomes, outputs or inputs.</p> <p>Accountability indicators should be presented in a table that is consistent with the format included in the budget papers.</p> <p>Accountability indicators should report against the original target and the amended target for each output. Where actual performance differs materially from the amended target, an explanation of the reasons for, and nature of, that variance is to be included in the statement.”</p> <p>“3.3 Territory Authorities Not Prescribed for Outputs 3.3.1 Territory Authority Statement of Intent Indicators From the 2007-08 financial year, and for those Territory authorities that are NOT prescribed for outputs, the Statement of Performance should include the following for each Statement of Intent Indicator:</p> <ul style="list-style-type: none"> ▪ <i>Description of Objectives for the Year</i> ▪ <i>Statement of Intent Measures</i> ▪ <i>Original Target</i> ▪ <i>% Variance from Original Target</i> ▪ <i>Explanation of Material Variances</i> ▪ <i>Explanation of Measures</i>”
<p>Australia - Queensland - Section 95 of the <i>Financial Management Standard 1997: Annual Report Guidelines</i></p>	<p>“(e) a review of the progress in achieving the agency’s statutory obligations; ... (g) a review of the agency’s progress towards achieving its goals and delivering its outputs for the year, including details about the agency’s actual performance in relation to its goals and outputs measured using the performance measures in the agency’s strategic plan (h) a review of the proposed forward operations of the agency, including— (i) its forward plans, proposed changes to operations and the need to continue current operations; and (ii) the goals identified in the agency’s strategic plan for the next financial year; (i) information about how efficiently and effectively the agency has carried out its operations, including a review of the agency’s progress in; benchmarking and achieving best practice and cost-effectiveness in carrying out its operations.”</p>

<p><i>Performance Measurement Reporting Obstacles and Accountability – Recent Trends and Future Directions</i>, Australia and New Zealand School of Government, 2006</p>	<p>“Better practice reporting principles</p> <ul style="list-style-type: none"> → focus on the few critical aspects of performance → look forward as well as back → explain key risk considerations → explain key capacity considerations → explain other factors critical to performance → integrate financial and non-financial performance information → provide comparative information → present credible information, fairly interpreted → disclose the basis of reporting.” (page 41)
<p>Australia - Department of Premier and Cabinet had also published <i>Annual Report Guidelines for Queensland Government Agencies: Guidelines for the 2008-9 reporting year</i></p>	<p>“Section 11.6 Agency outputs and output performance measures</p> <ul style="list-style-type: none"> ▪ Agencies must disclose: <ul style="list-style-type: none"> ○ a brief outline of the outputs provided by the agency (required by section 95(1)(a) of the Financial Management Standard) including an appropriate output description for each output. <p>The output description should be a short statement of the service or product provided in no more than a few sentences and must include an output objective. The output objective should demonstrate how the output contributes to the achievement of agency objectives identified in its strategic plan, and in turn, the Government's objectives for the community (ambitions and if relevant, targets).</p> <ul style="list-style-type: none"> ○ a description of how the outputs are measured (i.e. what performance measures are used to assess overall performance of the organisation in delivering its outputs), consistent with the agency's Service Delivery Statements and operational plan <p>Output performance measures should be relevant and meaningful for the general public to demonstrate the efficiency and effectiveness of the output.</p> <ul style="list-style-type: none"> ○ actual performance of each output (which aligns with the output performance measures and targets contained in the Service Delivery Statements) including brief explanatory notes for any significant variations between the 2008-09 budgeted v 2008-09 actual non-financial performance (i.e. the Service Delivery Statements sets out output performance targets for departmental outputs and contributions to outcomes, and the annual report reports on achievements) ○ information about how efficiently and effectively the agency has carried out its operations, including a review of the agency's progress in benchmarking and achieving best practice and cost-effectiveness in carrying out its operations (required by section 95(1)(i) of the Financial Management Standard) ○ provide evidence of value for money.” (page 24)
<p>Australia - The Queensland Audit Office published <i>Auditor-General of Queensland Report to Parliament No. 1 for 2008: Enhancing Accountability through Annual Reporting: A Performance Management Systems Audit</i> in 2008.</p>	<p>“The reports should also include performance measures that:</p> <ul style="list-style-type: none"> ▪ are relevant and appropriate ▪ are based on targets and benchmarks ▪ cover efficiency, effectiveness and economy for each of the Government outcomes and priorities ▪ cascade from the <i>Charter of Social and Fiscal Responsibility</i> to strategic plans and Ministerial Portfolio Statements ▪ are constant for the planning cycle of the agency or explain any changes ▪ guide the development of the strategic plans starting in 2008-09 and subsequent annual reports ▪ include sufficient years of data to show trends, typically five years.”
<p>Australia - The Institute of Chartered Accountants in Australia - <i>Enhancing not-for-profit annual and financial reporting – The essential tool for transparent reporting</i>, March 2009</p>	<p>“... • Funding Provide more detail about sources of funds as well as fundraising activities. Although the quantum of funds raised and used by NFPs can be determined from their financial statements, additional information on the sources of funds would enhance transparency. Consideration should be given to providing information regarding:</p> <ul style="list-style-type: none"> ○ the processes to secure government funding ○ policies for public fundraising ○ which costs are included in fundraising costs ○ the revenue models and the NFP's approach to funding ○ the use of websites to generate donations. <p>... • Reporting efficiency and effectiveness – sporting bodies Sporting body NFPs demonstrate the efficiency of their operations by determining the process KPIs that are relevant to their mission, objectives and activities, and disclosing them in their annual report. Where these KPIs are expressed as numbers or ratios, fluctuations from reporting period to reporting period should be explained.</p> <ul style="list-style-type: none"> • Outputs, outcomes and impacts NFPs enhance the effectiveness of their annual reports by portraying what the NFP has done (its outputs), what it has achieved (its outcomes), and what difference it has made (its impacts). The inclusion of measures of output, outcome and impact will improve completeness of reporting by demonstrating to the reader of the annual report what the NFP funding achieves rather than how it is spent. NFPs can improve their annual reports by including explanations of trends and movements in

	<p>these measures. These explanations should not be limited to financial data. Where process KPIs and outputs, outcomes and impacts are presented in quantitative form, explanations of movements from year to year should be provided.</p> <p>Many NFPs run programs and mount activities that are designed to deliver outputs and achieve outcomes over the long term. Information regarding trends and movements in quantitative data and explanations of year-to-year movements would be enhanced by the inclusion of long-term trend data. Reporting would also benefit from the inclusion of performance targets and explanations for variations of actual performance from those targets.”</p>
CPA Australia <i>Financial Reporting by Not-for-Profit Entities</i> (2000)	<p>“information about service efforts should: ... focus on how the organization’s resources (inputs such as money, personnel, and materials) are used in providing different programs or services. Techniques for measuring the costs of significant programs or services are well developed and this information should be included in financial statements.”</p>
The PwC Transparency Awards – Evaluation Criteria	<p>“... <ul style="list-style-type: none"> • Strategy and mission We considered the extent to which the organisation explains the strategy and structures that enable it to operate and looked for clear communication of how those strategy and structures enable the organisation to sustain and grow its activities. Ideally, management supports its strategy with targets and relevant milestones. • Structure and vision Inextricably linked to the strategy and mission is how well the organisation’s underlying organisational and governance structures, systems, processes and risk-management frameworks are aligned and how information in regard to this is disclosed. • Performance Reporting by not-for-profits should not just focus on the financial measures but on outputs, outcomes and impacts. We measured the extent to which the organisation’s reporting contained information on how they have delivered outputs, outcomes and impacts in line with the expectations of their stakeholders. Performance based information demonstrates how well the organisation understands the community need for their services, executed their strategy, and managed their resources and relationships. • Financial performance and position We assessed the extent of financial information provided to stakeholders and specific financial disclosures. • Scene setting In this section we determined the extent to which the organisation explains the environment in which it operates. Our assessment required us to consider the ‘story’ painted in the Annual Report and supporting information, including the history and relevance in the current environment. • Overall assessment Finally, we considered the information provided by the organisation as a whole against the Reporting Principles established by the Global Reporting Institute. Those reporting principles include: materiality; stakeholder inclusiveness; completeness; balance/neutrality; comparability; accuracy; timeliness; clarity; reliability and accessibility. Where an organisation has supplementary information that supports the annual report and meets these criteria, they are entitled to include this information as part of their submission. ...” <p>“Accountability for surplus funds An area we noted for particular attention is the articulation of a policy for the management and protection of funds raised surplus to an organisation’s stated or operational requirements. There needs to be clear accountability for the treatment of surplus funds and relevant, insightful disclosures in the financial statements regarding accounting for reserves and restricted assets. ...”</p> </p>
World Vision Australia – <i>Annual Report 2008</i>	<p>“Sustainability Report This report explains our commitment to the principles of sustainability and to sustainable development.”</p>
<i>Telstra Service Performance Report for March 2009 Quarter</i>	<p>“reasons for failing performance.”</p>
NZ Controller and Auditor-General (OAG) <i>The Auditor-General's observations on the quality of performance reporting</i> (2008)	<p>“6.24 The SSP in the annual report should report actual results against the forecast performance measures and targets outlined in the forecast SSP for any one year. But an effective performance reporting framework is broader than the SSP (or forecast SSP).</p> <p>6.25 The medium-term statement of intended achievements tends to focus on forecast information (that is, intended outcome achievement) for the prescribed number of years. Ideally, it will also provide historical actual results so that readers can track progress towards intended outcomes.</p>

	<p>6.26 Both the outcome-oriented and the output-oriented statements should be supplemented by other non-financial information giving context to those statements. Explanations of the reporting entity's role and functions, legislative or constitutional mandates, objectives, and strategies for achieving those objectives will provide a necessary context for readers to make sense of the service statements. Information on resources, capability, and risks also provides valuable background information to help readers understand and assess how well the reporting entity is delivering its services and making progress towards achieving its outcomes.</p> <p>6.27 The outcomes information and the broader contextual information are necessary for readers to draw conclusions about the rationale for, and the appropriateness of, the elements (outputs and output classes), performance measures, targets, and results reported in the SSP (or forecast SSP)."</p>
NZ IAS 1 <i>Presentation of Financial Statements</i>	<p>Requires description and disclosure of outputs (aggregated if appropriate). Requires disclosure of cost of each output. Requires, where appropriate and relevant, a description of quantity, quality, time and location in relation to each output. Requires disclosure of outcomes, where practical and appropriate. Requires comparisons of projected and actual performance.</p>
NZ Financial Reporting Standards Board (FRSB) (Technical Practice Aid No. 9 <i>Service performance reporting</i> , paragraph 5.42, 7.16)	<p>Outputs Projected output performance – using same measures as in ex ante reports and including targets Additional contextual information</p>
AASB 120 <i>Accounting for Government Grants and Disclosure of Government Assistance</i>	<p>Paragraph 39 “The following matters shall be disclosed: (a) the accounting policy adopted for government grants, including the methods of presentation adopted in the financial statements; (b) the nature and extent of government grants recognised in the financial statements and an indication of other forms of government assistance from which the entity has directly benefited; and (c) unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.”</p>
AASB ED 180 and FRSB 118 <i>Income from Non-exchange Transactions (Taxes and Transfers)</i>	<p>“Disclosures</p> <p>107 An entity shall disclose either on the face of, or in the notes to, the general purpose financial statements: (a) the amount of income from non-exchange transactions recognised during the period by major classes showing separately: (i) taxes, showing separately major classes of taxes; and (ii) transfers, showing separately major classes of transfer income. (b) the amount of receivables recognised in respect of non-exchange income; (c) the amount of liabilities recognised in respect of transferred assets subject to conditions; (d) the amount of assets recognised that are subject to restrictions and the nature of those restrictions; (e) the existence and amounts of any advance receipts in respect of non-exchange transactions; and (f) the amount of any liabilities forgiven. [Based on IPSAS 23, paragraph 106] 108 An entity shall disclose in the notes to the general purpose financial statements: (a) the accounting policies adopted for the recognition of income from non-exchange transactions; (b) for major classes of income from non-exchange transactions, the basis on which the fair value of inflowing resources was measured; (c) for major classes of taxation income which the entity cannot measure reliably during the period in which the taxable event occurs, information about the nature of the tax; (d) the nature and type of major classes of bequests, gifts, and donations, showing separately major classes of goods in-kind received; and (e) the nature and type of major classes of services in-kind received. [Based on IPSAS 23, paragraph 107. Paragraph 108(e) added – IPSAS 23 only encourages that disclosure.] 109 Entities are required to disclose the nature and type of major classes of services in-kind received, including those not recognised. The extent to which an entity is dependent on a class of services in-kind will determine the disclosures it makes in respect of that class. The disclosures include whether each class of services in-kind is recognised in the financial statements. [Based on IPSAS 23, paragraph 108. Amended to reflect disclosure requirement, with final sentence added.] 110 The disclosures required by paragraphs 107 and 108 assist the reporting entity to satisfy the objectives of financial reporting, as set out in AASB 101 / NZ IAS 1, which is to provide information useful for decision making and to demonstrate the accountability of the entity for the resources entrusted to it. [Based on IPSAS 23, paragraph 109]</p>

	<p>111 Disclosure of the major classes of income assists users to make informed judgments about the entity's exposure to particular income streams. [Based on IPSAS 23, paragraph 110]</p> <p>112 Conditions and restrictions impose limits on the use of assets, which impacts the operations of the entity. Disclosure of the amount of liabilities recognised in respect of conditions and the amount of assets subject to restrictions assists users in making judgments about the ability of the entity to use its assets at its own discretion. Entities are encouraged to disaggregate by class the information required to be disclosed by paragraph 107(c). [Based on IPSAS 23, paragraph 111]</p> <p>113 Paragraph 107(e) requires entities to disclose the existence of advance receipts in respect of non-exchange transactions. These liabilities carry the risk that the entity will have to make a sacrifice of future economic benefits if the taxable event does not occur, or a transfer arrangement does not become binding. Disclosure of these advance receipts assists users to make judgments about the entity's future income and equity position. [Based on IPSAS 23, paragraph 112]</p> <p>114 As noted in paragraph 69, in many cases an entity will be able to reliably measure assets and income arising from taxation transactions, using, for example, statistical models. However, there may be exceptional circumstances where an entity is unable to reliably measure the assets and income arising until one or more reporting periods has elapsed since the taxable event occurred. In these cases, the entity makes disclosures about the nature of major classes of taxation that cannot be reliably measured, and therefore recognised, during the reporting period in which the taxable event occurs. These disclosures assist users to make informed judgments about the entity's future income and equity position. [Based on IPSAS 23, paragraph 113]</p> <p>115 Paragraph 108(d) requires entities to make disclosures about the nature and type of major classes of gifts, donations and bequests it has received. These inflows of resources are received at the discretion of the transferor, which exposes the entity to the risk that in future periods, such sources of resources may change significantly. Such disclosures assist users to make informed judgments about the entity's future income and equity position. [Based on IPSAS 23, paragraph 114]</p> <p>116 Where services in-kind meet the definition of an asset and satisfy the criteria for recognition as an asset, entities may elect to recognise these services in-kind and measure them at their fair value. Paragraph 108(e) requires an entity to make disclosures about the nature and type of all services in-kind received, whether they are recognised or not. Such disclosures may assist users to make informed judgments about the contribution made by such services to the achievement of the entity's objectives during the reporting period, and the entity's dependence on such services for the achievement of its objectives in the future. [Based on IPSAS 23, paragraph 115. Amended to reflect disclosure requirement.] “</p>
AASB 1004 <i>Contributions</i>	<p>Disclosures</p> <p>18 The following information shall be disclosed:</p> <p>(a) contributions of assets, including cash and non-monetary assets; and</p> <p>(b) the forgiveness of liabilities.</p> <p>Paragraphs 60 to 62 of this Standard apply only to local governments, government departments, GGSs and whole of governments.</p> <p>60 The complete set of financial statements shall disclose, separately by way of note, the amounts and nature of:</p> <p>(a) contributions recognised as income during the reporting period in respect of which expenditure in a manner specified by a transferor contributor had yet to be made as at the reporting date, details of those contributions and the conditions attaching to them;</p> <p>(b) contributions recognised as income during the reporting period that were provided specifically for the provision of goods or services over a future period;</p> <p>(c) contributions recognised as income during the reporting period that were obtained in respect of a future rating or taxing period identified by the local government, GGS or whole of government for the purpose of establishing a rate or tax;</p> <p>(d) the nature of the amounts referred to in (a), (b) and (c) above and, in respect of (b) and (c) above, the periods to which they relate; and</p> <p>(e) contributions recognised as income in a previous reporting period that were obtained in respect of the current reporting period.</p> <p>61 Where a local government, government department, GGS or whole of government receives contributions on the condition that the related assets shall be expended in a particular manner or used over a particular period, and those conditions are undischarged in part or in full as at the reporting date, the entity will have a strong fiduciary responsibility in relation to the deployment of those contributed assets.</p>

	<p>As noted in paragraph 20, this fiduciary responsibility does not constitute a liability. However, information about the contributions, including the conditions, is relevant to users of the complete set of financial statements, particularly in assessing performance and the discharge of accountability obligations. Accordingly, this Standard requires disclosure of those conditions where they are yet to be discharged, in part or in full, as at the reporting date. In addition, disclosure of contributions recognised as income in a previous reporting period that were provided specifically in respect of the current reporting period will provide information relevant to users' assessments of the entity's recovery of the cost of goods and services it has provided during the current reporting period.</p> <p>62 The complete set of financial statements shall disclose separately the fair value of goods and services received free of charge, or for nominal consideration, that are recognised during the reporting period.</p> <p>Additional Government Department Disclosures Paragraph 63 of this Standard applies only to government departments.</p> <p>63 The complete set of financial statements of a government department shall disclose separately:</p> <p>(a) appropriations, by class; and (b) liabilities that were assumed during the reporting period by the government or other entity.</p> <p>Compliance with Parliamentary Appropriations and Other Externally-Imposed Requirements Paragraphs 64 to 68 of this Standard apply only to government departments.</p> <p>64 The complete set of financial statements of a government department shall disclose separately:</p> <p>(a) a summary of the recurrent, capital or other major categories of appropriations, disclosing separately: (i) the original amounts appropriated for the reporting period; and (ii) the total amounts appropriated for the reporting period; (b) amounts authorised other than by way of appropriation and advanced separately by the Treasurer, other minister or other legislative authority for the reporting period; (c) the expenditures for the reporting period in respect of each of the items disclosed in (a) and (b) above; (d) the reasons for any material variances between the amounts appropriated or otherwise authorised and the associated expenditures for the reporting period; and (e) the nature and probable financial effect of any non-compliance by the government department with externally-imposed requirements for the reporting period, not already disclosed by virtue of (d) above, and that are relevant to assessments of the government department's performance, financial position or financing and investing activities.</p> <p>65 The information disclosed about compliance with externally-imposed requirements shall be in a form that is relevant to users of that information, and that reflects the following:</p> <p>(a) the operating characteristics of the government department; (b) the structure of the appropriations; (c) any other requirements that are imposed externally on the government department; and (d) the general purpose nature of the complete set of financial statements.</p> <p>66 For the purposes of economic decision making, including assessments of accountability, this Standard requires that users of the complete set of financial statements be provided with information about the amounts appropriated or otherwise authorised for a government department's use, and whether the government department's expenditures were as authorised. When spending limits imposed by parliamentary appropriation or other authorisation have not been complied with, information regarding the amount of, and reasons for, the non-compliance is relevant for assessing the performance of management, the likely consequences of non-compliance, and the ability of the government department to continue to provide services at a similar or different level in the future.</p> <p>67 Broad summaries of the major categories of appropriations and associated expenditures, rather than detailed reporting of appropriations line-item by line-item for each activity, is sufficient for</p>
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	<p>most users of a government department's complete set of financial statements. Determining the level of detail and the structure of the summarised information is a matter of judgement. The detailed information about compliance with spending mandates required by certain users should be provided in special purpose financial statements.</p> <p>68 In addition to requirements to comply with expenditure limits imposed by parliamentary appropriations, government departments are subject to a range of legislative, regulatory and other externally-imposed requirements governing their operations. Knowledge of non-compliance with such requirements is relevant for accountability purposes and may affect users' assessments of the government department's performance and likely future operations. It may also influence decisions about resources to be allocated to that government department in the future.</p>
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Paper 4 Appendix F Extracts from explicit frameworks and research relating to users of service performance reports and those user needs

Reference	IASB - <i>Framework for the Preparation and Presentation of Financial Statements</i>
Type	Conceptual framework
Purpose	N/A
Methods	N/A
Types of entities considered	Profit orientated
Summary of the main conclusions	<p>Users:</p> <ul style="list-style-type: none"> • Present and potential investors • Employees • Lenders • Suppliers and other trade creditors • Customers • Governments and their agencies • The public <p>User needs:</p> <ul style="list-style-type: none"> • Investors. The providers of risk capital and their advisers are concerned with the risk inherent in, and return provided by, their investments. They need information to help them determine whether they should buy, hold or sell. Shareholders are also interested in information which enables them to assess the ability of the entity to pay dividends • Employees. Employees and their representative groups are interested in information about the stability and profitability of their employers. They are also interested in information which enables them to assess the ability of the entity to provide remuneration, retirement benefits and employment opportunities • Lenders. Lenders are interested in information that enables them to determine whether their loans, and the interest attaching to them, will be paid when due • Suppliers and other trade creditors. Suppliers and other creditors are interested in information that enables them to determine whether amounts owing to them will be paid when due. Trade creditors are likely to be interested in an entity over a shorter period than lenders unless they are dependent upon the continuation of the entity as a major customer • Customers. Customers have an interest in information about the continuance of an entity, especially when they have a long-term involvement with, or are dependent on, the entity • Governments and their agencies. Governments and their agencies are interested in the allocation of resources and, therefore, the activities of entities. They also require information in order to regulate the activities of entities, determine taxation policies and as the basis for national income and similar statistics • Public. Entities affect members of the public in a variety of ways. For example, entities may make a substantial contribution to the local economy in many ways, including the number of people they employ and their patronage of local suppliers. Financial statements may assist the public by providing information about the trends and recent developments in the prosperity of the entity and the range of its activities

Reference	AASB - <i>Framework for the Preparation and Presentation of Financial Statements</i>
Type	Conceptual framework
Purpose	N/A
Methods	N/A

This is an appendix to Paper 4 *Common features of service performance reporting frameworks found in practice*.

Types of entities considered	All
Summary of the main conclusions	<p>Users:</p> <ul style="list-style-type: none"> • Present and potential investors • Employees • Lenders • Suppliers and other trade creditors • Customers • Governments and their agencies • The public <p>User needs:</p> <ul style="list-style-type: none"> • Investors. The providers of risk capital and their advisers are concerned with the risk inherent in, and return provided by, their investments. They need information to help them determine whether they should buy, hold or sell. Shareholders are also interested in information which enables them to assess the ability of the entity to pay dividends • Employees. Employees and their representative groups are interested in information about the stability and profitability of their employers. They are also interested in information which enables them to assess the ability of the entity to provide remuneration, retirement benefits and employment opportunities • Lenders. Lenders are interested in information that enables them to determine whether their loans, and the interest attaching to them, will be paid when due • Suppliers and other trade creditors. Suppliers and other creditors are interested in information that enables them to determine whether amounts owing to them will be paid when due. Trade creditors are likely to be interested in an entity over a shorter period than lenders unless they are dependent upon the continuation of the entity as a major customer • Customers. Customers have an interest in information about the continuance of an entity, especially when they have a long-term involvement with, or are dependent on, the entity • Governments and their agencies. Governments and their agencies are interested in the allocation of resources and, therefore, the activities of entities. They also require information in order to regulate the activities of entities, determine taxation policies and as the basis for national income and similar statistics • Public. Entities affect members of the public in a variety of ways. For example, entities may make a substantial contribution to the local economy in many ways, including the number of people they employ and their patronage of local suppliers. Financial statements may assist the public by providing information about the trends and recent developments in the prosperity of the entity and the range of its activities

Reference	New Zealand Equivalent to the IASB Framework for the Preparation and Presentation of Financial Statements (NZ Framework)
Type	Conceptual framework
Purpose	N/A
Methods	N/A
Types of entities considered	All
Summary of the main conclusions	<p>Users:</p> <ul style="list-style-type: none"> • Present and potential investors • Employees • Lenders • Suppliers and other trade creditors • Customers • Governments and their agencies • The public <p>User needs:</p> <ul style="list-style-type: none"> • Investors. The providers of risk capital and their advisers are concerned with the risk inherent in, and return provided by, their investments. They need information to help them determine whether they should buy, hold or sell. Shareholders are also interested in information which enables them to assess the ability of the entity to pay dividends. • Employees. Employees and their representative groups are interested in information about the stability and profitability of their employers. They are also interested in information which enables them to assess the ability of the entity to provide remuneration, retirement benefits and employment opportunities. • Lenders. Lenders are interested in information that enables them to determine whether their loans, and the interest attaching to them, will be paid when due. • Suppliers and other trade creditors. Suppliers and other creditors are interested in information that enables them to determine whether amounts owing to them will be paid when due. Trade creditors are likely to be interested in an entity over a shorter period than lenders unless they are dependent upon the continuation of the entity as a major customer. • Customers. Customers have an interest in information about the continuance of an entity, especially when they have a long-term involvement with, or are dependent on, the entity. • Governments and their agencies. Governments and their agencies are interested in the allocation of resources and, therefore, the activities of entities. They also require information in order to regulate the activities of entities, determine taxation policies and as the basis for national income and similar statistics. • Public. Entities affect members of the public in a variety of ways. For example, entities may make a substantial contribution to the local economy in many ways, including the number of people they employ and their patronage of local suppliers. Financial statements may assist the public by providing information about the trends and recent developments in the prosperity of the entity and the range of its activities. <p>Other information:</p> <ul style="list-style-type: none"> • The <i>NZ Framework</i> also notes that the users of financial statements in the New Zealand context also includes: <ul style="list-style-type: none"> ○ funders and financial supporters (for example, taxpayers and donors), and

	<ul style="list-style-type: none"> ○ elected or appointed representatives. • Their needs include the following: <ul style="list-style-type: none"> ○ Funders or financial supporters. Funders or financial supporters provide a source of cash and/or resources that does not generate a direct return (unlike a loan) and is not provided in exchange for direct benefits (goods or services) for themselves. The funder or financial supporter generally provides taxation, grants or donations to the entity. This class of users includes the past, present and potential funders and financial supporters of the entity. When funders and financial supporters provide resources that are used to supply goods and services to third parties they are interested in the quality of the goods and services produced and whether the goods and services were produced in accordance with relevant contracts or agreements. As with customers that purchase goods and services directly from an entity, funders and financial supporters are interested in information about the continuance of an entity, such as its sustainability, flexibility and vulnerability ○ Elected or appointed representatives. Members of Parliament and local authority councillors represent their respective electorates. Members of a governing body represent the interests of specific groups or entities. Elected or appointed representatives use financial statements to assess an entity's actual achievement against its formal objectives and targets and hold an entity accountable for its performance. Such users are likely to use financial statements in conjunction with non-financial information. Where the elected or appointed representatives have responsibility for the long-term financial performance of an entity they may also be interested in its sustainability, flexibility and vulnerability
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Reference	FRSB, Technical Practical Aid – 9 <i>Service Performance Reporting</i> (Institute of Chartered Accountants of New Zealand, revised 2007)
Type	Guidance document
Purpose	To provide general information and guidance for interested parties in respect of service performance reporting for local and central government
Methods	N/A
Types of entities considered	Local and central government. TPA-9 also acknowledges that it could be applied by NFP's.
Summary of the main conclusions	<p>Users</p> <ul style="list-style-type: none"> • Purchasers of services • Managers of entities • General public <p>Other information:</p> <ul style="list-style-type: none"> • Reporting of service performance is to strengthen accountability for delivery of outputs as specified • Service performance reports should report on outputs with information on outcomes being provided as contextual information

Reference	Statement of Financial Accounting Concepts (SFAC) No.4 Objectives of Financial Reporting by Non-business Organizations (FASB, 1980a).
Type	Conceptual Framework
Purpose	To discuss the objectives of financial reporting by non-business organisations
Methods	N/A
Types of entities considered	Private sector non-business
Summary of the main conclusions	<p>Users:</p> <ul style="list-style-type: none"> • Resource providers – lenders, suppliers, employees • Constituents – may include some resource providers for example tax payers • Government and oversight bodies • Managers (managers of the reporting organisation) <p>Objectives of financial reporting:</p> <ul style="list-style-type: none"> • Information useful in making resource allocation decisions • Information useful in assessing services and ability to provide services • Information useful in assessing management stewardship and performance • Information about economic resources, obligations, net resources, and changes in them. Also includes: <ul style="list-style-type: none"> ○ nature of the relationship between inflows and outflows ○ service efforts and accomplishments ○ liquidity • Managers' explanations and interpretations

Reference	<i>CICA, Statement of Recommended Practice SORP-2 Public Performance Reporting (CICA 2006)</i>
Type	Guidance
Purpose	To provide guidance for reporting performance information in public performance reports.
Methods	N/A
Types of entities considered	Public sector
Summary of the main conclusions	<p>Users:</p> <ul style="list-style-type: none"> • Primary users are elected officials and the public they represent • Principle funder • Transferor of resources • Resource providers • Contributors <p>Other external users:</p> <ul style="list-style-type: none"> • Partners • Advocacy groups • Media <p>Report producers can:</p> <ul style="list-style-type: none"> • Align internal and external reporting systems • Use technology to manage performance information • Engage senior management • Ensure continuity of membership in the performance reporting team • Report against explicit targets set out in plans • Link performance to broader government priorities • Use performance measures consistently from year to year but maintain flexibility for continuous improvement • Pay particular attention to relevance and understandability • Disclose the level of assurance on the reliability and relevance of performance information • Consult users • Produce performance reports in formats that meet user needs <p>A public report should focus on the few critical aspects of performance:</p> <ul style="list-style-type: none"> • Commitments and issues raised • Financial magnitude • Importance to the overall success of the entity • Economic, social and environmental impact

Reference	CCAF, <i>Good Practices for Central Agencies, Legislators, Auditors, and Report Producers</i> (CCAF 2007)
Type	Guidance document
Purpose	The report compiles examples of good practice in public sector performance reporting for eight jurisdictions (Canada, Alberta, Washington State, Oregon, New Zealand, United Kingdom, Australia and New South Wales).
Methods	N/A
Types of entities considered	Public sector
Summary of the main conclusions	<p>Users:</p> <ul style="list-style-type: none"> • Internal users • Legislators • Private sector partners • Program beneficiaries • Non-governmental organisations, and • Other audiences <p>Other information:</p> <ul style="list-style-type: none"> • CCAF's Users and Uses report recommended that public performance report producers consult with users on the content and format of reports, to ensure that reports meet user needs • The essence of quality public performance reporting is to report on performance against planned targets. This allows both internal and external users to understand if objectives were met, if programs are functioning effectively and whether outcomes are being achieved

Reference	Connolly Ciaran and Noel Hyndman, <i>Performance Reporting by UK Charities - Approaches Difficulties and Current Practice</i> (The Institute of Chartered Accountants of Scotland, 2003)
Type	Research paper
Purpose	The paper discusses user needs in the context of accountability and considers the types of information provided in annual reports of UK charities to assess if the nature of information provided supports accountability.
Methods	Empirical analysis of the annual reports of the top 100 UK fundraising entities
Types of entities considered	UK Charities
Summary of the main conclusions	<p>Types of performance information identified:</p> <ul style="list-style-type: none"> • Goals and objectives • Inputs • Outputs • Results • Efficiency • Effectiveness • Future target information • Budget information <p>Other information:</p> <ul style="list-style-type: none"> • Annual reports are generally recognised as key documents in the discharge of accountability to external users • It is argued that the inclusion of performance information in annual reports of charities will lead to a more accountable charitable sector and also provide a stimulus for better management within a charity
Selected references to other sources	<ul style="list-style-type: none"> • Trueblood Report (American Institute of Certified Public Accountants (AICPA), 1973) • Statement of Financial Accounting Concepts No.4 Objectives of Financial Reporting by Non-business Organisations (FASB, 1980a) in the United States • Bird and Morgan-Jones (1981) (document which lead to the creation of the UK SORP) • 2000 SORP (Charity Commission, 2000)

Reference	Jones et al (1985)
Type	Research paper
Purpose	To identify users of US state and local government annual reports
Methods	To be updated
Types of entities considered	State and local governments
Summary of the main conclusions	<p>Users:</p> <ul style="list-style-type: none"> • Citizen groups: <ul style="list-style-type: none"> ○ Taxpayers ○ Voters ○ Service recipients ○ Pressure groups ○ Journalists ○ Researchers • Investors and creditors: <ul style="list-style-type: none"> ○ Securities underwriters ○ Bond rating agencies ○ Bond insurers ○ Financial institutions ○ Investors • Legislative & oversight officials: <ul style="list-style-type: none"> ○ State legislators ○ County commissioners ○ City council members ○ Board of trustees ○ School boards <p>Users information needs in respect of financial and non-financial performance information:</p> <ul style="list-style-type: none"> • Evaluate efficiency & effectiveness • Compare results of the current year with those of the previous year • Assess financial operations & financial condition • Determine compliance with the budget • Advocate certain programs or actions • Evaluate executive branch funding and spending proposals • Compare results with other governmental units • Monitor fund activity and financial position and to analyse fund balances • Ascertain the ability of a government to repay its debt <p>Other information:</p> <ul style="list-style-type: none"> • Jones recognised the primacy of accountability over decision usefulness in public sector annual reporting, and this is reflected in the user categories below

Reference	Farmjee, Pesh, ' <i>Performance Counts – Financial Reporting Charities</i> ', Accountancymagazine.com, September 2004
Type	Magazine article
Purpose	To discuss the need for charity reporting to include outputs, outcomes and impact information
Methods	Independently commissioned survey of 1,000 people
Types of entities considered	UK Charities
Summary of the main conclusions	<p>The following types of information were considered to be useful by the survey respondents:</p> <ul style="list-style-type: none"> • Aims and beneficiaries • Charity's objectives • Activities and their cost • Measuring success of activities • Particular achievements • Measuring the difference it makes • Using past results to plan the future • Effective leadership and management • Beneficiaries' influence on decisions & plans • Sources of income • Fundraising activities

Reference	Lee, J (2008) <i>Preparing Performance Information in the Public Sector: An Australian Perspective</i> , <i>Financial Accountability & Management</i> , 24(2), May 2008
Type	Research
Purpose	This paper examines performance information and reporting issues through a survey of the views of public sector managers in Australia regarding the importance of selected performance information in achieving the objectives of an organisation, the extent of information development, usefulness for reporting in annual reports, and actual reporting.
Methods	Empirical
Types of entities considered	Public sector managers in Australia
Summary of the main conclusions	<p style="text-align: center;">Role of Performance Information in Public Sector Governance</p> <pre> graph TD S["Stakeholders: Parliament, Portfolio Ministers, Ministers, Legislative and regulatory framework"] --> PI["Performance information, indicators, outcomes and outputs"] PI --> D["Departments/agencies board, secretary, CEO, Performance planning, setting objectives, operations, management decision making"] D --> SD["Service delivery"] SD --> MP["Monitoring of performance"] PI --> MP MP --> PBS["Portfolio budget statements"] PBS --> AR["Annual reports"] AR --> S AR --> PI </pre> <p><i>Source:</i> Adapted from ANAO (2002), <i>Performance Information in Portfolio Budget Statements, Better Practice Guide</i> (May), p.6.</p> <p>Ranking of importance for specific types of information</p> <p>Categories of information:</p> <ul style="list-style-type: none"> • Quality of outputs • Outcomes • Financial information • Narrative analysis of performance • Quality of outputs <p>Individual Items of information:</p> <ul style="list-style-type: none"> • Customer satisfaction • Costs • Reliability of service • Timeliness of service • Contribution of outcomes

	<ul style="list-style-type: none">• Operating surplus/deficit• Actual outcomes compared to intended outcomes• Accessibility of service• Factors, events or trends influencing performance• Revenue• Narrative analysis on non-financial performance• Narrative analysis of financial performance
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Reference	Mack J, Ryan C and Dunstan K, <i>Users of Local Government Annual Reports: An Exploratory Study</i> , Working Paper Series, Working Paper No. 4, Centre for Accounting, Governance and Taxation Research, School of Accounting and Commercial Law, Victoria University of Wellington (2008).
Type	Research
Purpose	This paper examines and analyses the annual report distribution lists for local government authorities within Queensland
Methods	Empirical
Types of entities considered	Local Authorities in Queensland, Australia
Summary of the main conclusions	<p>Users (based on an expansion of the users identified in SAC 2):</p> <ul style="list-style-type: none"> • Ratepayers, taxpayers and residents • Lenders and suppliers of funds • Councillors • Other consumers of services including local businesses • Oversight bodies including media, ratepayer and resident associations • Departments of Local Governments <p>Recipients of annual reports:</p> <ul style="list-style-type: none"> • Residents & Ratepayers • Lenders & Fund Providers • Councillors • Consumers of Services • Oversight Bodies • Internal • Other councils

Reference	United Kingdom Audit Commission, <i>In the Know. Using information to make better decisions: a discussion paper</i> , London, United Kingdom (2008)
Type	Discussion Paper
Purpose	This paper is intended to encourage those with a responsibility to improve public services to think about how they could exploit information more fully.
Methods	Field work, review engagements and seminars
Types of entities considered	Local Authorities in the UK
Summary of the main conclusions	<p>Information needs to be relevant for the decision at hand:</p> <ul style="list-style-type: none"> • Different decisions require different information, and judging what information is relevant for a decision is not easy • Performance indicators alone will not be adequate for important decisions • Aggregating information (for example over geography or time), using a range of information from different sources, and sharing information, will generate a fuller picture <p>The way information is presented is important for accurate interpretation:</p> <ul style="list-style-type: none"> • Relevant, good quality, information will not help decision makers if they cannot understand it • How information is presented, and what story it helps to tell, can affect the decisions based upon it • The way information is presented, therefore, needs to be tailored for both the audience and the decision at hand. Using information well requires decision makers and analysts to have particular skills • Decision makers need to be able to identify the information they need and to interpret it accurately • Those providing information need strong analytical and presentation skills • Evidence suggests that these skills are in short supply • People need to think carefully about the information they use whenever they make decisions • Those who make important decisions about local public services should demand better and clearer information • Public bodies need to evaluate whether their information is fit for purpose and used to best effect • Relevance, quality and presentation, summarised as RQP, are the key characteristics for useful information

Reference	Likierman A and others, <i>Financial Reporting in the Public Sector</i> , London: Chapman & Hall, (1992)
Type	Research
Purpose	N/A
Methods	To be updated
Types of entities considered	Public sector entities
Summary of the main conclusions	<p>The following users were identified:</p> <ul style="list-style-type: none"> • Elected members • Voters and taxpayers • Customers and clients • Employees • Suppliers • Government • Competitors • Regulators • Lenders • Donors & sponsors • Investors & partners • Pressure groups <p>The following user needs were identified. Information to:</p> <ul style="list-style-type: none"> • demonstrate compliance and stewardship • Monitor performance & evaluate management • Assess efficiency & effectiveness in use of resources • Enable making of planning decisions • Enable judgments about future viability • Assist public relations • Be a source of facts and figures <p>Other information:</p> <ul style="list-style-type: none"> • It was noted that it was easier to identify the information needs of specific users rather than the needs of general users

Reference	The New Zealand Office of the Controller and Auditor-General, <i>The Auditor-General's Observations on the Quality of Performance Reporting</i> , (OAG 2008)
Type	Discussion paper
Purpose	To set out the Auditor-General's perspectives on the purposes of performance reporting
Methods	N/A
Types of entities considered	Public sector
Summary of the main conclusions	<p>The audiences for performance reporting:</p> <ul style="list-style-type: none"> • Ministers and their monitoring agents • Parliament • Elected representatives • Media • Academics • Political and financial analysts and commentators • Concerned members of the public <p>User needs</p> <ul style="list-style-type: none"> • Serve accountability purposes • Aid decision-making <p>Other information:</p> <ul style="list-style-type: none"> • Assumption that users are moderately informed and willing to make the effort to understand

Reference	Jenkins, <i>Meeting the Information Needs of Investors and Creditors</i> Comprehensive Report of the Special Committee on Financial Reporting American Institute of Certified Public Accountants (1994)
Type	N/A
Purpose	To identify the information needs of investors and creditors
Methods	N/A
Types of entities considered	Profit oriented
Summary of the main conclusions	<p>User:</p> <ul style="list-style-type: none"> • Investors • Creditors • Management and board members • Employee groups • Competitors • Regulators • Academics • The press • Users concerned with various social causes <p>User needs:</p> <ul style="list-style-type: none"> • Financial and non-financial data • Management's analysis of financial and non-financial data • Forward-looking information • Information about management and shareholders • Background about a company • Display of information in financial statements • Unusual or non-recurring transactions or events • Disclosures related to unconsolidated entities • Accounting for intangibles, including goodwill • Measurement uncertainties • Reporting financial information by segment • Purchase and pooling methods of accounting for business combinations • Limiting the range of accounting alternatives • Off-balance-sheet financing arrangements • Accounting for leases and other executory contracts • Accounting and disclosures for innovative financial instruments • Value information in financial statements

Reference	GASB Governmental Accounting Standards Board Statement No. 34, <i>Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments</i> , GASB (1987)
Type	Financial reporting pronouncement
Purpose	The Statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions (or who may do so in the future) such as: legislators, their staff, and members of oversight bodies; investors, creditors, and others who provide resources to governments; and citizen groups and the public in general.
Methods	N/A
Types of entities considered	State and Local Government
Summary of the main conclusions	<p>Users:</p> <ul style="list-style-type: none"> • Citizenry groups and the general public • Legislative & oversight bodies • Investors and creditors • Resource providers to governments <p>User needs:</p>

	<ul style="list-style-type: none">• Used in making economic, social, and political decisions and in assessing accountability• Comparing actual financial results with the legally adopted budget• Assessing financial conditions and results of operations• Assisting in determining compliance with finance related laws, rules and regulations• Assisting in evaluating efficiency and effectiveness
Selected references to other sources	Based on the earlier work of Jones et al (1985)

Reference	UK Accounting Standards Board – <i>Statement of Principles for Financial Reporting – Interpretation for Public Benefit Entities, UK ASB (1999)</i>
Type	Interpretation
Purpose	The Interpretation explains how the principles in the Statement apply to public benefit entities
Methods	N/A
Types of entities considered	Public benefit entities
Summary of the main conclusions	Users: <ul style="list-style-type: none"> • Present and potential investors • Present and potential funders and financial supporters • Lenders • Beneficiaries/customers • Governments and their agencies including regulators • The public

Paper 4 Appendix G Extracts from relevant documents relating to costing models used in practice and those used in preparing service performance reports

Source	Costing models
AG-4 (Revised) <i>The Audit of Service Performance Reports</i>	<p>A62. “The full and fair allocation of costs to outputs is one of the cornerstones of an efficient management control system. The information such systems generate should enable stakeholders and management to make decisions concerning resource use, budgetary implications, output pricing, and the extent of cross-subsidisation. Therefore, such systems can have a considerable effect on the disclosures in service performance reports.” (paragraph A62)</p> <p>A63. “The audit focus should be on the underlying assumptions and the system. Therefore the Appointed Auditor is likely to concentrate on:</p> <ol style="list-style-type: none"> Testing the reasonableness of the underlying assumptions; Ensuring the method of allocation is reasonable and supportable. (The allocation of overheads should follow a cause and effect relationship. The factors that cause the consumption of overheads are called “cost drivers”. Although some proportion of overhead will not be traceable to a particular output, the aim is to identify a causal link wherever possible. Activity-based costing will be relevant for achieving a more accurate costing of outputs in some cases); and Ensuring that there is consistency of treatment within the audit period (i.e. costs are allocated on the same basis as funds are appropriated or budgeted), and between audit periods where applicable.”
TPA-9 <i>Service Performance Reporting</i>	<p>TPA-9 <i>Service Performance Reporting</i> does not include any requirements or guidance on costing models that should be used for Service Performance Reporting purposes. It only provides high level guidance on performance measures and targets. TPA-9 paragraph 5.3 highlights that performance measures described in paragraph 5.2 should not be regarded as the only measures that may be used. If other dimensions are a priority for the purchaser and are measurable, then they should be used. Paragraph 5.11 states that judgement is needed to determine the most suitable performance measures. Staff note the use of high level principles used in TPA-9 rather than enforcing rules and requirements for reporting on service performance.</p>
SEA Performance Information <i>The Proposed Suggested Guidelines for Voluntary Reporting of SEA Performance Information</i> , No.20-2, June 2009	<p><i>The Proposed Suggested Guidelines</i> do not provide any guidance on appropriate costing models that should be applied in SEA Performance Information Reporting.</p> <p>“The use of key measures within a SEA report should provide users with enough information to develop their own conclusions about important aspects of a government’s performance without overwhelming them. The number and type of key measures reported may vary depending on the level of reporting, with additional measures included at more detailed levels of reporting”. (paragraph 15)</p>
<p>Wikipedia <i>The free encyclopaedia</i> http://en.wikipedia.org/w/index.php?title=Special%3ASearch&redirs=0&search=costing+%26amp;fulltext=Search&ns0=1</p> <p>F. Vigario <i>Managerial Accounting</i>, Second Edition, 2001</p>	<p>Staff note that the following cost models are some of the main costing models applied in practice by entities:</p> <ul style="list-style-type: none"> ● activity-based costing; ● lean accounting (value stream costing); ● grenzplankostenrechnung (GPK); ● life cycle costing; ● standard costing; ● production cost modeling ● resource consumption accounting; ● throughput accounting; ● transfer pricing; ● weighted average costing; ● actual costing; ● variance reporting; ● cost-plus pricing; and ● complex transactional control systems.
<p>Wikipedia <i>The free encyclopaedia</i> http://en.wikipedia.org/wiki/Activity-based_costing</p> <p>F. Vigario <i>Managerial Accounting</i>, Second Edition, 2001</p>	<p>Activity-based costing (ABC)</p> <p><i>Background</i></p> <p>ABC is a costing model that identifies activities in an organisation and assigns the cost of each activity resource to all products and services according to the actual consumption by each. It assigns more indirect costs (overhead) into direct costs.</p> <p>In this way an organisation can precisely estimate the cost of its individual products and services for the purposes of identifying and eliminating those which are unprofitable and lowering the prices of those which are overpriced.</p>

	<p>In a business organisation, the ABC methodology assigns an organisation's resource costs through activities to the products and services provided to its customers. It is generally used as a tool for understanding product and customer cost and profitability. As such, ABC has predominantly been used to support strategic decisions such as pricing, outsourcing and identification and measurement of process improvement initiatives.</p> <p><i>Approach to ABC:</i></p> <ol style="list-style-type: none"> 1. determine the activities that relate to the overheads; 2. quantify the activity cost; 3. determine the cost drivers associated with the activity; 4. determine the cost driver rates by dividing the activity cost by the cost driver volume; and 5. apply the rates calculated to a product. <p><i>Advantages</i></p> <ul style="list-style-type: none"> • activity-based costing helps to identify inefficient products, departments and activities; • it helps to allocate more resources on profitable products, departments and activities; • it helps to control the cost at an individual level and on a departmental level; • it helps to find unnecessary costs; • it improves cost estimation as cost behaviour understanding is improved; and • it improves strategic decision making in the pricing of products, improving the product range by discontinuing old products and promoting new ones. <p><i>Disadvantages</i></p> <ul style="list-style-type: none"> • ABC has been attempted by 60% of US organisations with only 20% having sustained it (Bain & Co). 80% of organisations still use traditional full-absorption standard costing, regardless of the negative business management impact; • ABC systems design is "too complex"; • ABC software standalone; not IT integrated; • ABC treats cost allocation to an activity as absolute, certain and linear; • It uses a small sample of historical data and extrapolates the information for long-term costing and decision making requirements; • ABC is historic and lacks relevance; • ABC costs will vary significantly according to the choice of cost drivers and activities; • ABC is a conventional system and does not address the modern competitive business environment; • ABC systems used for retrospective analysis, not direct business management (successful implementations use ABC to actually do business planning); • a relatively costly accounting methodology; • it is considered to be complex and a highly wasteful method; and • some overhead costs are difficult to assign to products and customers, such as the chief executive's salary. These costs are not assigned to products and customers because there is no meaningful method. This lump of unallocated overhead costs must nevertheless be met by contributions from each of the products. Although some may argue that costs untraceable to activities should be "arbitrarily allocated" to products, it is important to realize that the only purpose of ABC is to provide information to management. Therefore, there is no reason to assign any cost in an arbitrary manner.
<p>Brian H Maskell <i>What is Lean Accounting</i> http://www.maskell.com/lean_accounting/subpages/lean_accounting/components/What_is_Lean_Accounting.pdf</p> <p>Wikipedia <i>The free encyclopaedia</i> http://en.wikipedia.org/wiki/Lean_accounting</p>	<p><u>Value stream costing applied in Lean accounting</u></p> <p><i>Background</i></p> <ul style="list-style-type: none"> • The purpose of this accounting model is to move from traditional accounting methods to a system that measures and motivates excellent business practices. • This was developed by Toyota and other Japanese companies. • There is no or little allocation of overheads. • The objective is to eliminate waste, free up capacity, speed up the process, eliminate errors & defects, and make the process clear and understandable. • While this method is primarily used within manufacturing, the approach has proven useful in many other areas including healthcare, construction, financial services, governments, and other industries. <p>Lean Accounting does not require the traditional management accounting methods like standard costing, activity-based costing, variance reporting, cost-plus pricing, complex transactional control systems, and untimely & confusing financial reports. These are replaced by:</p> <ul style="list-style-type: none"> • focused performance measurements • simple summary direct costing of the value streams • decision-making and reporting using a <i>box score</i> • financial reports that are timely and presented in "plain English" that everyone can understand • radical simplification and elimination of transactional control systems by eliminating the need for them

- driving lean changes from a deep understanding of the value created for the customers
- eliminating traditional budgeting through monthly sales, operations, and financial planning processes (SOFP)
- value-based pricing
- correct understanding of the financial impact of lean change

Typical measurements include:

- productivity (sales/person);
- process control (on-time shipment to customer requirement);
- flow (dock-to-dock days or hours);
- quality & standardised work (first time through without scrap or rework);
- linearity and overall improvement (average cost);
- people participating in CI; and
- safety (safety cross showing lost time, accidents, near-misses, etc.).

Tools for implementing Value stream costing include:

- value stream mapping; current & future state;
- kaizen (lean continuous improvement);
- PDCA problem solving;
- performance measurement linkage chart; linking metrics for cell/process, value streams, plant & corporate reporting to the business strategy, target costs, and lean improvement;
- value stream performance boards containing break-through and continuous improvement projects;
- box scores showing value stream performance;
- cost management;
- value stream costing;
- value stream income statements;
- accounting processes that support lean transformation;
- customer & supplier value and cost management;
- target costing;
- value stream cost and capacity analysis;
- current state & future state value stream maps;
- box scores showing operational, financial, and capacity changes from lean improvement. Plan for financial benefit from the lean changes;
- transaction elimination matrix; and
- process maps showing controls and SOX risks.

Box score card

Staff note that many entities that use this costing model use the box score card. Below is an illustration of a box score card. The standard format of the box score shows a 3-dimensional view of value stream performance; operational performance measurements, financial performance, and how the value stream capacity is being used.

		7/3/2009	7/10/2009	7/17/2009	7/24/2009	7/31/2009	9/23/2009	9/30/2009	GOAL
OPERATIONAL	Units per Person	214	194	241	241	229			272
	On-Time Shipment	97.20%	98.00%	98.00%	98.00%	96.00%			98.50%
	First Time Thru	72%	82%	95%	72%	86%			95%
	Dock-to-Dock Days	8.9	8.5	9	12	8.9			7.1
	Average Cost	\$68.51	\$46.50	\$46.72	\$47.73	\$43.53			\$39.01
	AP days - AR days	8	8	8.8	8	8			8
CAPACITY	Productive	31%	39%	31%	31%	31%			31%
	Non-Productive	56%	62%	56%	41%	41%			41%
	Available Capacity	13%	3%	13%	28%	28%			28%
FINANCIAL	Revenue	\$1,611,496	\$1,816,906	\$1,816,906	\$1,816,906	\$1,816,906			\$1,954,006
	Material Costs	\$490,286	\$674,183	\$581,926	\$767,819	\$642,825			\$625,810
	Conversion Costs	\$497,933	\$559,091	\$498,129	\$498,129	\$511,720			\$498,904
	Inventory	\$221,163	\$211,223	\$223,849	\$295,197	\$289,265			\$176,433
	Value Stream Profit	\$622,227	\$883,712	\$736,951	\$851,838	\$882,441			\$841,293
	Value Stream ROI	38.67%	32.13%	40.96%	30.23%	36.46%			43.06%

Advantages

- provide relevant and thorough accounting, control, and measurement systems;
- not complex and highly wasteful like ABC;
- working to eliminate cost allocations rather than finding complicated methods of allocation;
- takes more into account than just the financial metrics of the organisation.
- takes into account individual activities, processes and parameters within each activity or process that contain non-dollar units that better represent the company's standing;
- identify and resolve the root causes of the problems that create the lack of control;
- fully complies with all statutory and generally accepted accounting requirements in the United States and Europe, including the unique requirements of German, Swiss, and Italian regulation. Lean accounting also complies with the increasingly popular International Accounting Standards (IAS) that is seeking to create a single world-wide approach. When moving from traditional accounting methods to lean accounting there

	<p>is no "change of accounting" because the external reporting outcome of lean accounting uses the same accrual based actual costing required by GAAP and statutory regulations. There is an argument that lean accounting lends itself better to statutory regulations because they require reporting at actual cost. Lean accounting uses actual costs throughout, whereas traditional accounting uses standard costs that must then be adjusted to actual costing for external reporting;</p> <ul style="list-style-type: none"> • simple summary direct costing of the value streams; and • there is little or no allocation of 'overheads. <p><i>Disadvantages</i></p> <ul style="list-style-type: none"> • There are as yet no published cases of the use of lean accounting outside of manufacturing.
<p>Strategic Finance Magazine <i>German Cost Accounting</i>, Paul A. Sharman, December 2003, pages 30-38</p> <p>Wikipedia <i>The free encyclopaedia</i> http://en.wikipedia.org/wiki/Grenzplankostenrechnung</p>	<p><u>Grenzplankostenrechnung (GPK)</u></p> <p><i>Background</i> GPK is a German costing methodology, designed to provide a consistent and accurate application of how managerial costs are calculated and assigned to a product or service. The GPK methodology has become the standard for cost accounting in Germany and has also been adopted by many entities throughout Sweden, Norway, Austria, France and Netherlands.</p> <p>GPK is about marginal costing instead of full costing, short-term decision support instead of long-term and cost centres instead of activities and processes.</p> <p>With GPK's marginal-based approach, internal service and saleable product/service costs should only reflect the direct and indirect costs that can be linked to individual outputs (whether final product or support service) on a causal basis (referred to as the <i>principle of causality</i>). Proportional costs in GPK consist of direct and indirect costs that will vary with the particular output. Proportional costs provide the first contribution margin level that supports short-term decisions and once proportional costs are subtracted from revenue, it reveals whether the product or service is profitable or not. GPK practices have varied, for example, not all adopters adhere to strict marginal practices such as the pre-allocation of fixed costs based on planned product/service volumes.</p> <p>GPK adopters often calculate a standard per-unit-rate for fixed product/service costs and a separate per-unit-rate for proportional product/service costs. The balance of costs not causally assignable to the lowest level product or service can be assigned at yet higher levels within the marginal costing system's multi-level Profit & Loss (P&L) statement. For example, with GPK, fixed costs that relate to a product group or a product line (e.g., R&D, advertising costs) are assigned to the product group or product line reporting/management dimension in the P&L. This marginal costing approach offers managers greater flexibility to view, analyze and monitor costs (e.g., all product and cost-to-serve costs) for their area of responsibility. Thus GPK assigns all costs to the P&L but it does not fully absorb to the lowest level product or service. GPK's multi-dimensional marginal view of the organisation supports operational managers with the most relevant information for strategic decision-making purposes about "what products or services to offer" and at "what price to sell them".</p> <p><i>Characteristics of GPK</i></p> <ul style="list-style-type: none"> • Costs centres plan resource consumption rates as either proportional or fixed relative to outputs • Cost centres are structured around activities with activity drivers and resources with resource drivers • Cost centre charge rates are calculated and charged to consuming departments at budget rate • Business modelling software allows planning / modelling • GL cost centre structure embeds costs into the management system <p><i>Principles applied</i></p> <ul style="list-style-type: none"> • Admin, sales & marketing OH added after calculating product-specific cost • Dedicated overhead (e.g. product group marketing costs) allocated by segment • Equipment, product R&D cost applied at the product group level <p><i>Advantages</i></p> <ul style="list-style-type: none"> • provides meaningful insight and analysis of accounting information that benefits internal users, such as controllers, project managers, plant managers, versus other traditional costing systems that primarily focus on analyzing the firm's profitability from an external reporting perspective complying with financial standards; • GPK marginal system unites and addresses the needs of both financial and managerial accounting functionality and costing requirements; and • provides relevant information for strategic decision-making purposes. <p><i>Disadvantages</i></p> <ul style="list-style-type: none"> • the entities that apply this costing system tend to use ERP (Enterprise Resource Planning) software (e.g., SAP) and they tend to reside in industries with highly

	<p>complex processes. However, GPK is not exclusive to highly complex organisations; GPK is also applied to less complex businesses and will reap the same informational insights;</p> <ul style="list-style-type: none"> • GPK is a marginal costing system and is decidedly more comprehensive than most U.S. cost management systems because of the level of organisational planning and control and its emphasis on accurate operational modeling; • data integrity required therefore clean-up required prior to launching GPK; • high amount of set-up work; and • not a perfect fit for all areas –e.g. Information Services.
<p>Globusz® Publishing. <i>Standard Cost</i>, Chapter 4 http://www.globusz.com/ebooks/Costing/0000014.htm</p> <p>F. Vigario <i>Managerial Accounting</i>, Second Edition, 2001</p>	<p><u>Standard costing</u></p> <p><i>Background</i> The CIMA, London has defined standard cost as “a predetermined cost which is calculated from management’s standards of efficient operations and the relevant necessary expenditure.” They are the predetermined costs on technical estimate of material labour and overhead for a selected period of time and for a prescribed set of working conditions. In other words, a standard cost is a planned cost for a unit of product or service rendered.</p> <p>An important part of standard cost accounting is a variance analysis which breaks down the variation between actual cost and standard costs into various components (volume variation, material cost variation, labor cost variation, etc.) so managers can understand <i>why costs were different from what was planned</i> and take appropriate action to correct the situation.</p> <ul style="list-style-type: none"> • standard costing is a system that enables management to analyse deviations from budget so that future costs can be controlled more effectively; • standard costs are predetermined target costs which should be incurred in production; • allows entities to easily analyse what is going wrong and rectify the problem in the following accounting period; and • standard costing is a management control technique for every activity. It is not only useful for cost control purposes but is also helpful in production planning and policy formulation. It allows management by exception. <p><i>Advantages</i></p> <ul style="list-style-type: none"> • <i>Efficiency measurement</i>-- The comparison of actual costs with standard costs enables the management to evaluate performance of various cost centres. In the absence of standard costing system, actual costs of different period may be compared to measure efficiency. It is not proper to compare costs of different period because circumstance of both the periods may be different. Still, a decision about base period can be made with which actual performance can be compared. • <i>Finding of variance</i>-- The performance variances are determined by comparing actual costs with standard costs. Management is able to spot out the place of inefficiencies. It can fix responsibility for deviation in performance. It is possible to take corrective measures at the earliest. A regular check on various expenditures is also ensured by standard cost system. • <i>Management by exception</i>-- The targets of different individuals are fixed if the performance is according to predetermined standards. In this case, there is nothing to worry. The attention of the management is drawn only when actual performance is less than the budgeted performance. Management by exception means that everybody is given a target to be achieved and management need not supervise each and everything. The responsibilities are fixed and every body tries to achieve his/her targets. • <i>Cost control</i>-- Every costing system aims at cost control and cost reduction. The standards are being constantly analysed and an effort is made to improve efficiency. Whenever a variance occurs, the reasons are studied and immediate corrective measures are undertaken. The action taken in spotting weak points enables cost control system. • <i>Right decisions</i>-- It enables and provides useful information to the management in taking important decisions. For example, the problem created by inflating, rising prices. It can also be used to provide incentive plans for employees etc. • <i>Eliminating inefficiencies</i>-- The setting of standards for different elements of cost requires a detailed study of different aspects. The standards are set differently for manufacturing, administrative and selling expenses. Improved methods are used for setting these standards. The determination of manufacturing expenses will require time and motion study for labour and effective material control devices for materials. Similar studies will be needed for finding other expenses. All these studies will make it possible to eliminate inefficiencies at different steps. <p><i>Disadvantages</i></p> <ul style="list-style-type: none"> • standard costing cannot be used in those organisations where non-standard products are produced. If the production is undertaken according to the customer specifications, then each job will involve different amount of expenditures; • the process of setting standards is a difficult task, as it requires technical skills. The time and motion study is required to be undertaken for this purpose. These studies require a lot of time and money; • there are no inset circumstances to be considered for fixing standards. The conditions under which standards are fixed do not remain static. With the change in circumstances, if the

	<p>standards are not revised the same become impracticable; and</p> <ul style="list-style-type: none"> the fixing of responsibility is not an easy task. The variances are to be classified into controllable and uncontrollable variances. Standard costing is applicable only for controllable variances. For instance, if the industry changed the technology then the system will not be suitable. In that case, we will have to change or revise the standards. A frequent revision of standards will become costly.
<p>Electric Power Research Institute <i>Asymptotic Mean And Variance Of Electric Power Generation System Production Costs Via Recursive Computation Of The Fundamental Matrix Of A Markov Chain</i>, Fen-Ru Shih , Mainak Mazumdar http://www.pitt.edu/~mmazumd/Bloom1.doc</p>	<p><u>Production costing models</u></p> <p><i>Background</i> Production costing models are used in the electric power industry to forecast the expected amount of electricity produced by different power generation units and the expected cost of producing electricity for a given power generation system. These forecasts are extensively used by the industry for financial and capacity planning, fuel management and operational planning. The production cost models account for the expected variation of load (i.e., demand for power) over time and the uncertainty in the utilization of the generating units resulting from their failures and repairs. The production cost of a power generating system over a given time interval is obtained by adding the amounts of energy produced by each unit in megawatt-hours (MWH) multiplied by its operating cost (\$/MWH). The major component of the operating cost for each unit is its cost of fuel. The amount of energy produced by each unit is a random variable because it is dependent on the uncertainty in the load and the utilization of the generating units due to the possibility of failures. The production cost is thus also a random variable. The steady-state expected production costs of the generation system are estimated in the model by using the load duration curve (LDC) in place of the chronological sequence of loads. The LDC is equivalent to the empirical survivor function obtained from the hourly load sequence over the time period of interest.</p> <p><i>Advantages</i></p> <ul style="list-style-type: none"> It assists in forecasting the expected amount of electricity produced by different power generation units; and It assists in forecasting the expected cost of producing electricity. <p><i>Disadvantages</i></p> <ul style="list-style-type: none"> Very complex Specific to electric power industry Requires the use of detailed systems
<p>AASB 102 <i>Inventories</i></p>	<p><u>IFRS requirements</u></p> <p>“9 Inventories shall be measured at the lower of cost and net realisable value.”</p> <p><i>Costs of Purchase</i> “11 The costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.”</p> <p><i>Costs of Conversion</i> “12 The costs of conversion of inventories include costs directly related to the units of production, such as direct labour. They also include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. Fixed production overheads are those indirect costs of production that remain relatively constant regardless of the volume of production, such as depreciation and maintenance of factory buildings and equipment, and the cost of factory management and administration. Variable production overheads are those indirect costs of production that vary directly, or nearly directly, with the volume of production, such as indirect materials and indirect labour.”</p> <p>“13 The allocation of fixed production overheads to the costs of conversion is based on the normal capacity of the production facilities. Normal capacity is the production expected to be achieved on average over a number of periods or seasons under normal circumstances, taking into account the loss of capacity resulting from planned maintenance. The actual level of production may be used if it approximates normal capacity. The amount of fixed overhead allocated to each unit of production is not increased as a consequence of low production or idle plant. Unallocated overheads are recognised as an expense in the period in which they are incurred. In periods of abnormally high production, the amount of fixed overhead allocated to each unit of production is decreased so that inventories are not measured above cost. Variable production overheads are allocated to each unit of production on the basis of the actual use of the production facilities.”</p> <p>“14 A production process may result in more than one product being produced simultaneously. This is the case, for example, when joint products are produced or when there is a main product and a by-product. When the costs of conversion of each product are not separately identifiable, they are allocated between the products on a rational and consistent basis. The allocation may be based, for example, on the relative sales value of each product either at the stage in the production</p>

	<p>process when the products become separately identifiable, or at the completion of production. Most by-products, by their nature, are immaterial. When this is the case, they are often measured at net realisable value and this value is deducted from the cost of the main product. As a result, the carrying amount of the main product is not materially different from its cost.”</p> <p><i>Other Costs</i></p> <p>“15 Other costs are included in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition. For example, it may be appropriate to include non-production overheads or the costs of designing products for specific customers in the cost of inventories.”</p> <p>“16 Examples of costs excluded from the cost of inventories and recognised as expenses in the period in which they are incurred are:</p> <ul style="list-style-type: none"> (a) abnormal amounts of wasted materials, labour or other production costs; (b) storage costs, unless those costs are necessary in the production process before a further production stage; (c) administrative overheads that do not contribute to bringing inventories to their present location and condition; and (d) selling costs.”
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Paper 4 Appendix H Approaches to the measurement of NFP activities identified by the Productivity Commission

The following table provides a summary of measurement approaches that have been applied to NFP activities. While they differ somewhat in resource requirements, purposes for which they are undertaken and the information they provide, they also share some common ground (for example, emphasis on stakeholder consultation and transparent presentation of results). (Source from Page B.37 of Appendix B ‘Techniques of social evaluation’ of the Productivity Commission Report)

Table B.5 Comparing measurement approaches

Approach	Advantages	Disadvantages	Comments
Cost benefit analysis	<ul style="list-style-type: none"> • Well-established measurement methodology (in economics) • Requires an explicit counterfactual • Can be used to compare a number of activities • Can be used to evaluate performance over time • Properly applied, it is capable of capturing the ‘intangible’ benefits associated with NFP activities. ‘Plug-in’ values may also be used (eg. value of statistical life) • Utilises sensitivity analysis to test the robustness of results 	<ul style="list-style-type: none"> • Focus on net benefits may make it difficult to capture equity effects unless these are given a value, which can be controversial • Can be informationally demanding (eg. forecasting impacts over time) • May be technically challenging and expensive to implement • May require outside consultants to undertake, potentially limiting the learning achieved within the NFP 	<ul style="list-style-type: none"> • The principles underlying cost-benefit analysis (eg. transparency; sensitivity analysis) also underlie other measurement approaches • Has been typically applied in larger scale ‘activity’ studies rather than program evaluation
Social Return on Investment (SROI)	<ul style="list-style-type: none"> • Utilises the principles of financial reporting to provide information to funders in a form that is well-understood • Emphasises importance of consultation with stakeholders and the need for credible assumptions (and transparent presentation of results) • Uses measurable market values as proxies for outcomes • Utilises sensitivity analysis to test the robustness of results • Standardised guidance is available to aid implementation – importantly on deadweight, attribution, displacement and drop-off 	<ul style="list-style-type: none"> • Disadvantages associated with cost benefit analysis may also apply • Market values may not always be a good proxy for some outcomes (eg. improvements) • Standardised approach to attribution and the counterfactual may be inappropriate 	<ul style="list-style-type: none"> • SROI was specifically designed for use in the NFP sector and is increasingly used to provide those who provide funding to social enterprises with information on the ‘return’ from their investments
Log frame	<ul style="list-style-type: none"> • Identifies the rationale of an activity and justifies its implementation relative to alternatives • Provides a summary of the resources and conditions needed for a successful intervention 	<ul style="list-style-type: none"> • Can be better at program design rather than ex-post evaluation • May not allow straightforward identification of unintended consequences 	

Approach	Advantages	Disadvantages	Comments
‘Stated’ preference approaches – application in Stakeholder value management analysis	<ul style="list-style-type: none"> • Can be the only means of valuing intangible outcomes • Is a well established valuation technique (eg. in environmental issues) • Draws on extensive theoretical underpinnings from economics • Emphasises the importance of engagement with stakeholders 	<ul style="list-style-type: none"> • Can be expensive to undertake and require technical expertise • The relevance of the results will depend on the nature of the questions and how they are asked • Presents a ‘snapshot’ of stakeholder views so may be difficult to measure changes over time 	<ul style="list-style-type: none"> • This is a measurement technique rather than a measurement framework and can be used in conjunction with other measurement techniques
Results based Accountability	<ul style="list-style-type: none"> • Designed specifically for service provision • Has been applied widely in assessing NFP and public sector activities, both in Australia and overseas • Standardised guidance is available to aid implementation • Support is often forthcoming from government agencies to assist in implementation 	<ul style="list-style-type: none"> • Governments that require the use of RBA as part of performance reporting may mandate a ‘standardised’ approach which can limit flexibility in NFP choice of performance indicators. 	<ul style="list-style-type: none"> • This is a widely accepted framework which has been accepted for use in measuring service provision (eg. in the public sector)
Social accounting and audit	<ul style="list-style-type: none"> • Emphasises the importance of transparently presented and independently verified results • Is based on financial reporting frameworks which will be familiar to many organisations • Draws on developments in related fields (eg. environmental accounting) • Is not prescriptive in the measurement techniques used • Emphasises the importance of stakeholder consultation and verification 	<ul style="list-style-type: none"> • Does not provide specific guidance on which measurement techniques should be used • Use of non-standard measurement techniques can limit comparability and benchmarking 	<ul style="list-style-type: none"> • Social accounting was developed in the 1970s and a number of international accounting bodies have developed standards around the practice. • Recent interest in social accounting has been generated by the development of environmental accounting
Balanced Scorecard (BSC) ¹	<ul style="list-style-type: none"> • Leaders of NFPs can adapt the BSC to make their organizations more strategy focused, delivering demonstrable performance aligned with their vision and mission. • At a macro, economy-wide level, Balanced Scorecard reports can function like financial statements in the for- 	arrive at agreement on what constitutes success and benefits to our constituents which often slows down the adoption of an effective system of evaluation. ²	program inputs or proposed actions and are designed for system and staff performance accountability and usually are not as clear as is RBA in distinguishing the differences between program

¹ Balanced Scorecard (BSC) is a tool designed to assist an organization to focus on the execution of strategy by establishing a small number of measures to evaluate the success of strategy over time. (Page 5 of *Achieving the Right Balance between Effectiveness, Transparency and Accountability-The Critical Role of Program Evaluation and Development*, prepared by Dr Rob Simons, Head of Research and Social Policy of The Smith Family on 22 March 2007

² Source from page 10 of the *Achieving the Right Balance between Effectiveness, Transparency and Accountability-The Critical Role of Program Evaluation and Development*, prepared by Dr Rob Simons, Head of Research and Social Policy of The Smith Family on 22 March 2007

Approach	Advantages	Disadvantages	Comments
Balanced Scorecard (BSC) ³	<ul style="list-style-type: none"> • facilitate the migration of scarce funding and volunteer support to those nonprofits that are most effective and efficient in delivering tangible performance benefits to their targeted constituencies.⁴ 		performance and population accountability, as well as in showing the relation between the two. ⁵

Cost benefit analysis

Page B.20 of Appendix B ‘Techniques of social evaluation’ states that:

Cost benefit analysis is an analytical framework used to evaluate the net benefit (benefit less cost) of an activity.

...

In setting out the principles of cost benefit analysis, the Australian Government (2006, p. xi) noted that:

Its power as an analytical tool rests in two main features:

- costs and benefits are expressed as far as possible in money terms and hence are directly comparable with one another; and
- costs and benefits are valued in terms of the claims they make on and the gains they provide to the economy as a whole, so the perspective is a ‘global’ one rather than that of any particular individual or interest group. (2006, p. xi)

Page B.21 goes on:

The steps in undertaking a cost benefit analysis are shown in box B.2.

Box B.2 Steps in undertaking a cost benefit analysis

1. Identify all costs and benefits of each alternative
2. Value the costs and benefits of each alternative
3. Estimate the annual benefits and costs (for the ‘life’ of each option)
4. Discount the future stream of costs and benefits
5. Calculate the net benefit of each alternative
6. Test for the effects of changes in assumptions or data

Source: Sinden and Thampapillai (1995).

Social return on investment (SROI)

Page B.24 of Appendix B ‘Techniques of social evaluation’ states that:

Although underpinned by principles of cost benefit analysis, SROI also draws on the concepts of financial analysis and uses financial values as proxy indicators for the benefits derived from NFP activities.

...

³ Balanced Scorecard (BSC) is a tool designed to assist an organization to focus on the execution of strategy by establishing a small number of measures to evaluate the success of strategy over time. (Page 5 of *Achieving the Right Balance between Effectiveness, Transparency and Accountability-The Critical Role of Program Evaluation and Development*, prepared by Dr Rob Simons, Head of Research and Social Policy of The Smith Family on 22 March 2007

⁴ Source from page 11 of the *Achieving the Right Balance between Effectiveness, Transparency and Accountability-The Critical Role of Program Evaluation and Development*, prepared by Dr Rob Simons, Head of Research and Social Policy of The Smith Family on 22 March 2007

⁵ Source from page 6 of the *Achieving the Right Balance between Effectiveness, Transparency and Accountability-The Critical Role of Program Evaluation and Development*, prepared by Dr Rob Simons, Head of Research and Social Policy of The Smith Family on 22 March 2007

The first step in calculating the SROI is to identify the scope of the program under evaluation, including all relevant stakeholders who are ‘... all those who might affect or be affected by the activities within your scope, whether the change or outcome is positive or negative, intentional or unintentional’ (Office of the Third Sector 2009, p. 20).

The next step involves identifying the inputs, outputs and outcomes of the activities under evaluation. Values are then attached to these. Where possible, SROI utilises market values and in cases where prices are not directly observable proxy measures are used. But, it also recognises that some proxy values are more credible than others.

Page B.25 gives some Examples of proxy measures shown in table B.2.

Table B.2 **SROI: outcomes, indicators and financial proxies**

<i>Stakeholder</i>	<i>Outcome</i>	<i>Indicator</i>	<i>Possible financial value proxy measures</i>
Person with mental health problem	Improvement in mental health	<ul style="list-style-type: none"> Amount of time spent socialising Extent to which participants engage in new activities Level of use of mental health services 	<ul style="list-style-type: none"> Cost of membership of a social club Percentage of income normally spent on leisure Cost of counselling sessions
...
Person with physical health problem	Improved physical health	<ul style="list-style-type: none"> Number of visits to GP surgery Extent of improvements in health (self-reported) How often they exercise 	<ul style="list-style-type: none"> Cost of visiting private GP clinic Cost of health insurance Cost of gym membership
...
Young people	Decrease in drug use	<ul style="list-style-type: none"> Level of drug use 	<ul style="list-style-type: none"> Average amount spent by young people on drugs
...

Source: Office of the Third Sector (2009, p. 49).

Once values are assigned to outcomes an impact map can be constructed to identify the contribution of an activity or program. To do this, several factors need to be accounted for.

- *Deadweight* — the share of outcomes which would have happened if the activity had not taken place. This attempts to account for factors external to the organisations which may have contributed to the outcome...

Page B.26 goes on:

- *Displacement* — the extent to which the activity generates negative effects elsewhere.
- *Attribution* — the percentage of the outcomes directly attributable to the activity.
- *Drop-off* — the percentage of the outcomes which are sustained over time.

Assumptions about these factors are applied to estimated outcomes to provide a measure of contribution....

This process can be repeated to evaluate contribution over time, with separate values calculated for each year the activity is expected to have an effect. The SROI is then calculated as the ratio of the present value of benefits to the estimated present value of inputs used in providing the activity. (Alternatively, the net SROI can be calculated as the ratio of the present value of benefits, less any financial costs, to the estimated cost of inputs).

The methodology emphasises the importance of conducting sensitivity analysis to calculate the effect on the SROI of changes in key variables including the estimated proportion of deadweight, attribution and drop-off; financial proxies; the number of those affected by the activity; and, the value of inputs. It also encourages results, and the underlying assumptions, to be reported in a transparent fashion to enable independent verification.

‘Stated’ preference approaches – application in Stakeholder value management analysis

Page B.27 of Appendix B ‘Techniques of social evaluation’ states that:

Stated preference techniques have long been employed in economics to estimate intangible values.

Paragraph 3 of page B.28 goes on:

Stakeholder Value Management Analysis is an application of the stated preference approach to NFP activities (Fletcher et. al. 2003). It elicits rankings of organisational activities from key stakeholders (clients, government or philanthropic funders, partners in service delivery and the general community).

Once key stakeholders are identified, they are asked to nominate which of the organisation’s activities they consider to be most important. More detailed questioning, and statistical techniques, can then be used to infer how willing stakeholders would be to make hypothetical trade-offs between various outcomes (in terms of both quality and quantity). This information can be used to calculate ‘rates of return’, by stakeholder, for the activities undertaken by NFPs.

Logical Framework

Page B.29 of Appendix B ‘Techniques of social evaluation’ states that:

The Logical Framework (or ‘log frame’) takes a program logic approach to evaluation. It was developed as a design tool for activities undertaken by international aid programs. It also provides the basis for ex-post evaluation of the activity....

Page B.30 goes on:

A key analytical tool is the log frame matrix (table B.3). The matrix sets out a hierarchy of objectives for the project – from outputs to outcomes and impacts. It also identifies indicators for measuring success and the assumptions made to link each of the objectives. The matrix is intended to ensure ‘vertical logic’ (that is, the objectives should be linked in a coherent manner) and ‘horizontal logic’ (that is, the indicators should be coherently related to the objectives).

Table B.3 Logframe matrix

<i>Activity description</i>	<i>Indicators</i>	<i>Means of verification</i>	<i>Assumptions</i>
Goal or impact — the long term impact (policy goal) of the activity	How the achievement will be measured — including appropriate targets (quantity, quality and time)	Sources of information on the goal indicator(s) — including who will collect it and how often	
Purpose or outcome — The medium term result(s) of the activity	How the achievement of the purpose will be measured — including appropriate targets (quantity, quality and time)	Sources of information on the purpose indicator(s) — including who will collect it and how often.	Assumptions concerning the purpose to goal linkage
Component objectives or intermediate results — This level in the objectives or results hierarchy can be used to provide a clear link between outputs and outcomes (particularly for larger multi-component activities)	How the achievement of the component objectives will be measured — including appropriate targets (quantity, quality and time)	Sources of information on the component objectives indicator(s) — including who will collect it and how often.	Assumptions concerning the component objective to output linkage
Outputs — The tangible products or services that the activity will deliver	How the achievement of the outputs will be measured — including appropriate targets (quantity, quality and time)	Sources of information on the output indicator(s) — including who will collect it and how often.	Assumptions concerning the output to component objective linkage

Source: Australian Government (2005).

Results based accountability (RBA)

This is an appendix to Paper 4 *Common features of service performance reporting frameworks found in practice.*

Page B.31 of Appendix B ‘Techniques of social evaluation’ states that

RBA is another method that uses program logic. It defines results (or outcomes) for specific activities and identifies indicators that can be used to measure success. Success is measured relative to a projected baseline, or the situation which would have occurred in the absence of the activity.

... baselines have two parts: an historical part that tells us where we’ve been, and a forecast part that shows us where we’re headed if we don’t do something differently.

Creating the forecast part of a baseline is an art, not a science. There is not a single, right forecast. It is sometimes useful to show a range of forecast scenarios: high, medium and low; or optimistic, pessimistic, and likely. (Friedman 2005, pp. 56-57)

RBA emphasises early consultation with clients and other stakeholders involved in service delivery to identify relevant outcomes and a process for monitoring them. Importantly, it also distinguishes between the performance of individual programs or activities and the general effects on the community. According to its developer, RBA:

... starts with ends and works backward, step by step, to means. For communities, the ends are conditions of well-being for children, adults, families and the community as a whole ... For programs, the ends are how customers are better off when the program works the way it should such as the percent of people in a job training program who get and keep good paying jobs. (Friedman 2005, p. 11; emphasis in original)

Paragraph 5 of page B.32 goes on that:

In measuring performance, RBA avoids the use of input/output distinctions (which are regarded as more applicable to the production of physical goods rather than service delivery). Instead, it distinguishes between:

- quantity indicators of effort (How much did we do?)
- quality indicators of effort (How well did we do it?)
- measures of effect (Is anyone better off?)

RBA ranks quantity measures of effort (such as the number of patients treated) as the least important. Measures of effect, which identify client outcomes, are regarded as the most important. Performance indicators provide evidence on how well an activity is delivered, while population indicators provide information on the broader community impacts (figure B.7).

Social accounting

Page B.35-36 of Appendix B ‘Techniques of social evaluation’ state that:

Social accounting and audit is a framework for measuring the economic, environmental and social contribution of an organisation. After consultation with key stakeholders, the organisation prepares a set of social accounts which sets out the value of the activities undertaken by the organisation during the reporting period.

The information gathered, and the measurement techniques used, are determined by the organisation but the accounts are subject to scrutiny by an independent social audit board to ensure that they are a ‘fair and honest reflection of what happened during the accounting period’ ...As such, social accounting provides a framework for measuring contribution rather than a technique for measuring outcomes and impacts.

Balanced Scorecard performance measurement practice (BSC)

Page 11 of MEASURING PUBLIC SECTOR PERFORMANCE (A study of government departments in Australia which was prepared by Professor Zahirul Hoque and Professor Carol Adams in 2008) states that, the BSC approach, which was developed by Kaplan and Northon, “focuses on both financial and non-financial measures within the following four dimensions:

- **Financial:** the financial perspective includes profitability measures such as cash flow, quarterly sales growth and operating income by division, increased market share and return on equity.
- **Customer:** the customer perspective encompasses such measures as market share, customer response time, on-time performance, product reliability, percentage of sales from new products, percentage of sales from established products, on-time delivery, share of key accounts purchases, ranking by key accounts and number of cooperative engineering efforts.
- **Internal business process:** the internal business process use such things as number of new patents; number of new product launches; process time to market; time to develop next generation; and quality, time and efficiency measures (such as direct material efficiency variances, effect yield manufacturing lead time, head count and inventory).
- **Learning and growth:** the learning and growth perspective focuses on people, information technology and systems and organisational processes with a view to create long-term growth and improvement. Three essential principles for this perspective, identified by Kaplan and Norton (1996), are employee capabilities, information system capabilities and motivation.

Impact mapping approach – the proposed measurement framework by the Productivity Commission

Based on that contribution is measured by net benefit. The Productivity Commission proposed impact mapping approach which provides a common language for inputs, outputs, outcomes and impacts. It encourages the development of common measures and indicators at each level for each of the following four categories:

- *Service delivery* either to people outside the organisation or to members
- *Exerting influence* and promoting change on economic, social, cultural and environmental issues.
- *Connecting the community* and expanding the social networks available to individuals.
- *Enhancing the community endowment* by investing in skills, knowledge and physical, social, cultural and environmental assets for the benefit of future generations

Inputs, outputs, outcomes and impacts

Inputs	Any resources used by an NFP to achieve its objectives. Inputs include labour, physical assets, financial capital, and also include intellectual capital and the value of relationships which is difficult to measure. Input measures are a necessary first step in evaluation.
Outputs	The product of an activity. Outputs are the direct result of NFP entities activities and processes Outputs can be measured at the organisation or program level. In addition to data contained in the ABS satellite account on the economic contribution of NFPs, output measures may be obtained from annual reports of NFPs and from government program reviews. The result of the outputs measures is consistent with improved effectiveness in achieving outcomes
Outcomes	The effects on a participant during or after their involvement in an activity. Outcomes are the intended results of NFP activities. Each of the output categories has an associated class of directly related outcomes. While some outcomes may arise directly from the outputs of an NFP, most are the result of a combination of factors.
Impacts	The broader effects of an activity, taking into account all its benefits and costs to the community.

Impacts are distinguished from outcomes as they capture the longer-term and feedback effects, and spillovers from activities.

The Commission proposes a measurement framework to guide the collection of data, evaluation approaches and reporting, and production of information about the sector. And it reports on NFP entities activities from the resources used (inputs) through to the ultimate effects on individuals and the community (impacts). The proposed framework also provides a structure to guide the user to articulate the relationships (draw the connections between) each level from the initial input decisions through to the ultimate outcomes for the individuals involved and the impacts on them and the community. However, it is a reporting framework rather than a diagnostic one.