

Paper 3: Threshold issues pertinent to service performance reporting by private sector not-for-profit entities

Definitions used in this paper

For the purpose of this paper, the following working definitions are used:

- (a) *Not-for-profit entity*: an entity whose principal objective is not the generation of profit (see AASB 102.Aus6.1, reproduced in footnote 1 below)
- (b) *Service performance reporting*: reporting of information primarily related to a private sector not-for-profit entity's principal non-financial objective (see paragraph 4 below)
- (c) *Presentation*: the manner in which financial information is formatted and conveyed in the conventional statements of financial position, comprehensive income and cash flows, and their conventional supplementary disclosures (see paragraph 2(a) below)
- (d) *Disclosure*: information conveyed outside the conventional financial statements and their conventional supplementary information
- (e) *Financial information*: information to which a dollar-sign is attached (see paragraph 9 below)
- (f) *Non-financial information*: information that is not financial information (see paragraph 9 below)
- (g) *Quantitative information*: information conveyed numerically (eg number of meals-on-wheels delivered), whether presented in a narrative or tabular form. It may be financial or non-financial information [see paragraph 21 below]
- (h) *Qualitative information*: non-financial information that is not quantitative information, that is, information conveyed through commentary in a narrative form without numerical details (eg quality of counselling advice provided to nursing mothers) [see paragraph 21 below]

Background and introduction

1. At its 29-30 July 2009 meeting, the Board decided to undertake an active project 'Disclosures by Private Sector Not-for-Profit Entities'. Initially (phase 1), the project will focus on disclosures that Australian Accounting Standards do not currently

require of private sector not-for-profit entities¹ that should be required, having regard to the information needs of users of general purpose financial statements. In the first instance (part 1 of phase 1), consideration will be given to service performance reporting, including the work being undertaken by the International Public Sector Accounting Standards Board (IPSASB) and the New Zealand Financial Reporting Standards Board (FRSB) on that topic (see paper 1 *Status report on IPSASB and NZ FRSB work on service performance reporting [as at 7 September 2009]*). The intention is that this part of the project has a 12-month development timeframe. Other aspects of disclosures expected to be considered in the remaining parts of phase 1 include segment reporting/disaggregated disclosures.

2. As implied by its title, the project's focus is on disclosures rather than presentation, recognition or measurement.
 - (a) For the purpose of this paper, presentation refers to the manner in which financial information is formatted and conveyed in the conventional statements of financial position, comprehensive income and cash flows and their conventional supplementary disclosures. Consistent with the Board's July 2009 decisions, presentation issues will be addressed either as part of the Board's separate Financial Statement Presentation project or as a possible follow-on from the current project.
 - (b) Recognition and measurement issues are addressed by the Board in a range of other projects that are pertinent to not-for-profit entities in both the private and public sectors.

3. Some argue that, because the Board's pronouncements are based on IASB pronouncements, existing disclosure requirements focus on the needs of users of for-profit general purpose financial statements, and therefore the needs of users of not-for-profit general purpose financial statements are not being met as effectively as they could be. In response, the Board's policy is to address whether there are any

¹ Paragraph Aus 6.1 of AASB 102 *Inventories* defines a not-for-profit entity as "... an entity whose principal objective is not the generation of profit. A not-for-profit entity can be a single entity or a group of entities comprising the parent entity and each of the entities that it controls." The Board considered the suitability of this definition in Invitation to Comment ITC 14 *Not-for-Profit Entity Definition and Guidance*, but suspended further work on the issue until the development of the *Process for Modifying IFRSs for NFPs* is further advanced.

particular factors relating to not-for-profit entities that would create a need for a disclosure (or other accounting treatment) that differs from or is in addition to an IFRS requirement. Accordingly, this paper's focus on threshold issues relating to additional disclosures that might be pertinent to private sector not-for-profit entities, in particular service performance reporting, is consistent with that policy. As noted in paper 2 *Report on staff research into domestic and international requirements and practices relating to service performance reporting* (which is a work in progress), existing Australian Accounting Standards do not contain requirements relating to disclosures about service performance. This is despite some being of the view that such disclosures are needed by users in the not-for-profit private sector (as discussed under issue 1 below).

4. Service performance reporting conceivably includes financial and non-financial information. Non-financial information is an area that is not typically the focus of the Board's attention. Accordingly, this paper considers threshold issues relating to user needs for financial and non-financial information (issue 1) and the Board's role and the approach it could take to disclosures about service performance (issues 2 to 6). It is intended that a future paper (paper 4) delve deeper into the nature of service performance reporting, including the possible content of a statement of service performance, drawing from the research reported in paper 2. Until paper 4 is developed, for the purpose of this paper, references to service performance reporting are to the reporting of information primarily related to a private sector not-for-profit entity's principal non-financial objective. This paper concludes with consideration of how this project might integrate with NZ FRSB work on service performance reporting (issue 7).

Action asked of the Board

5. The Board is asked to consider the issues discussed in this paper and provide staff with directions that can be used as input for a consultative document, with a view to ultimately specifying requirements or providing guidance for private sector not-for-profit entities on service performance reporting. Depending on the Board's conclusions on the issues identified in this paper, we plan to develop a consultation paper on the form and content of statements of service performance of private sector

not-for-profit entities. As indicated in paragraph 4, we envisage there being a need for further papers (at least paper 4 *Definition of service performance (scoping this part of the project)* and paper 5 *Principles of service performance reporting*) as a basis for eliciting the Board's preliminary views, before we are ready to draft a more formal consultative document.

Threshold issues for the Board's consideration

Issue 1: Users and their information needs

6. According to paragraphs 16-25 of the AASB's Statement of Accounting Concepts SAC 2 *Objective of General Purpose Financial Reporting*, users of general purpose financial reports include:
 - (a) resource providers (including, in relation to private sector not-for-profit entities, donors and members of non-business entities such as clubs, societies and professional bodies);
 - (b) recipients of goods and services (including, in relation to private sector not-for-profit entities, beneficiaries and members of professional associations);
 - (c) parties performing a review or oversight function; and
 - (d) management and governing bodies.

7. In relation to the purposes for which these user groups require information, and consequently the objective of general purpose financial reporting, paragraphs 26 and 27 of SAC 2 state:

... the objective of general purpose financial reporting is to provide information to users that is useful for making and evaluating decisions about the allocation of scarce resources.

When general purpose financial reports meet this objective they will also be the means by which managements and governing bodies discharge their accountability to the users of the reports. The provision of information for accountability purposes is an important function of the process of general purpose financial reporting, particularly in relation to public sector entities and non-business entities in the private sector ...

8. The Board's focus is the specification of general purpose financial reporting requirements that would satisfy the needs identified in paragraph 7 above of the types

of users listed in paragraph 6 above, having regard to cost-benefit considerations. Part of the context for this focus is expressed in paragraph 13 of the *Framework for the Preparation and Presentation of Financial Statements*, which acknowledges that:

... financial reports do not provide all the information that users may need to make economic decisions since they largely portray the financial effects of past events and do not necessarily provide non-financial information.

Whether this implies that non-financial information is outside the scope of general purpose financial statements or whether the scope of general purpose financial statements should be expanded to include non-financial information is discussed later in this paper.

9. Issues 1.1 and 1.2 below consider the needs of users for financial and non-financial information, comparing for-profit and not-for-profit entities. For the purpose of this paper, financial information is defined as numerical information to which a dollar-sign is attached, and non-financial information is defined as other information. Non-financial information might be either quantitative or qualitative, in a narrative or tabular format and may be conveyed in a commentary. It is intentional that these working definitions do not include a link between the type of information to which they refer and the usefulness of that information to users. This is because, in the course of this project, the Board may discuss a broad range of information some of which is subsequently determined not to be useful to users of general purpose financial statements.
10. Some argue that a piece of information that is derived from a combination of financial information (eg total costs of providing meals-on-wheels) and non-financial information (eg total number of meals provided), such as a cost-per-meal ratio, is non-financial in nature. However, for the purpose of this paper, although that type of information is not oriented towards profit, we treat it as financial information. We acknowledge that some might argue that this type of information goes beyond the scope of financial reporting because it is derived from two underlying pieces of information. We address that argument in issue 3.2 below.
11. We also acknowledge that, at the extreme, some might argue financial information is only a dollar amount and therefore, for example, the line item in a statement of

financial position of 'property, plant and equipment \$115m' is a combination of non-financial information (being the line item description) and financial information (being '\$115m'). We do not adopt this view because we regard the '\$115m' and the accompanying line item description as being one 'integrated' item of information that we would characterise as financial information.

Issue 1.1: Financial information needs of users

12. There are arguably common financial information needs across the for-profit and not-for-profit sectors. For example, paragraph 12 of the *Framework*, which applies to both the for-profit and not-for-profit sectors, states:

The objective of financial reports is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions.

This is so, even if that information is focused on users' need for profit information in a for-profit context and on users' need for some other financial aggregate in a not-for-profit context. This section of the paper focuses on the differences in the financial information needs of users between the sectors, rather than their common needs.

13. It is reasonable to presume that users have an interest in many of the conventional financial aspects of not-for-profit entities, because unless those financial aspects are managed properly the entity is unlikely to be able to pursue its not-for-profit objectives most effectively. Consistent with this presumption, as noted in paper 2, paragraph Aus 15.1 of the *Framework* states that:

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.** (emphasis added)

14. In contrast to a for-profit entity, arguably the financial objectives of a not-for-profit entity include the maximisation of income (as distinct from profit) for use in the course of satisfying the entity's non-financial objectives. Arguably a not-for-profit entity's statement of comprehensive income, for example, could be structured in a way to convey important financial information about that not-for-profit entity's financial objectives. In particular, instead of focusing on a profit number, the

statement for a charity, for example, could be structured to present a fund-raising-revenue-less-fund-raising-costs sub-total (providing users with information relevant to an assessment of the effectiveness of fund-raising activities). The statement could go further and also distinguish between restricted and unrestricted revenue, to communicate the extent to which a charity has discretion over its spending. Furthermore, the statement could present expenses by program (providing users with information relevant to an assessment of the costs of services, for use in the assessment of the efficiency of the entity's programs).

15. Although financial information about not-for-profit entities in conventional financial statements could be oriented to focus on not-for-profit aspects rather than profit, this is an issue primarily relating to presentation rather than disclosure and therefore, as noted in paragraph 2(a) above, outside the scope of this paper. We acknowledge that the information presented in the financial statements might need to be supplemented by disclosures, such as disaggregations of line items, in a similar way in which disclosures are currently used to supplement the information in conventional financial statements. However, these types of disclosures are not the focus of this paper.
16. The **staff view** is that the financial information needs of users relating to not-for-profit entities differ from those for for-profit entities. However, those needs can be largely satisfied through the conventional primary financial statements (being the statements of financial position, comprehensive income and cash flows). This is because different presentation approaches, as distinct from fundamentally different disclosures, can be used within those conventional financial statements to satisfy the different needs, albeit with conventional supplementary disclosures. To the extent that the different financial information needs of users can be satisfied through the presentation of conventional financial statements, they do not need to be dealt with in this phase of the project.

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| <ol style="list-style-type: none">17. Question for the Board: Do you agree that users of general purpose financial statements of not-for-profit entities need financial information that differs from the financial information needed by users of general purpose financial statements of for-profit entities? Do you agree that the financial information needs of users in the not- |
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for-profit private sector could be largely satisfied through presentation techniques (ie a reorientation of the existing conventional financial statements) with supplementary disclosures—which are outside the scope of this project—as distinct from fundamentally different disclosures?

18. On its own, financial information is unlikely to be sufficient to meet the needs of users. Issue 1.2 considers issues relevant to the non-financial information needs of users of general purpose financial statements.

Issue 1.2: Non-financial information needs of users

19. In addition to financial information, users of general purpose financial statements of for-profit entities might be interested in non-financial information, such as an entity's market share or number of days lost due to industrial unrest. This type of information can provide a context to the financial information. Despite it being useful information, it is typically not included in the general purpose financial statements of for-profit entities even though it may be included in the annual report. However, we are not focusing on the location of non-financial information at this stage in the paper. Rather, we are focusing on the information needs of users. The question of location and whether it is the Board's role to consider issues relating to non-financial information are addressed under issue 2 below.
20. Paragraph 30 of SAC 2 acknowledges that non-financial information is not only relevant to users in the for-profit sector, but also particularly relevant to users in the not-for-profit sector. It states:

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. ...

Consistent with this and the objective of general purpose financial reporting, non-financial information about a not-for-profit entity could provide input to users in making certain financial (resource allocation) decisions, such as whether to continue to donate to a particular charity.

21. As noted in paragraph 9 above, non-financial information might be of a quantitative nature (eg the number of meals served to homeless men) or a qualitative nature (eg helpful advice provided to nursing mothers). The argument might be put that qualitative non-financial information should be converted to quantitative non-financial information (eg in relation to nursing mothers: the number of volunteers made available, the number of mothers provided with advice, and some measure of the level of satisfaction with that advice), consistent with the maxim 'if you can't measure it, you shouldn't be doing it'. To achieve this goal would potentially involve undertaking surveys to assess, for example, client satisfaction, and converting those to a quantified measure of satisfaction, which may be a costly exercise that would exceed any likely benefits. Therefore, it may be preferable to contemplate disclosure of both quantitative and qualitative non-financial information rather than limiting it to quantitative information that may be inadequate or too costly. Another dimension to this issue is whether the information presented should be in a tabular or narrative form and in a commentary. This paper does not deal with that level of detail.
22. The **staff view** is that, given a private sector not-for-profit entity has a not-for-profit principal objective, users of the general purpose financial statements of that entity particularly need non-financial information related to that objective, which may be of a quantitative or qualitative nature (whether presented in a tabular or narrative form, perhaps as part of a commentary).

<p>23. Question for the Board: Do you agree that users of general purpose financial statements of a private sector not-for-profit entity need non-financial information, whether quantitative or qualitative, pertinent to the entity's principal objective?</p>

24. Irrespective of the above discussion, as alluded to in paragraph 19, a threshold issue is whether it is the Board's role to address the reporting of non-financial information in general purpose financial statements. This issue is addressed under issue 2 immediately below.

Issue 2: Is it the Board's role to address matters related to service performance reporting by private sector not-for-profit entities?

25. Consistent with the discussion under issue 1 above, issue 2 mainly focuses on the Board's role in relation to quantitative and qualitative non-financial information. The Board's July 2009 decision to undertake a project that in the first instance focuses on service performance reporting could be interpreted as implying that the Board accepts it has a role in relation to the inclusion of non-financial information in the general purpose financial statements of private sector not-for-profit entities. Despite this, for completeness, this section considers the issue from first principles.
26. Paragraph 30 of SAC 2 notes that "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." As noted in paragraph 3.1.1 of paper 2, that foreshadowed separate Statement of Accounting Concepts has not eventuated, and is unlikely to be developed within the timeframe of this project. Accordingly, it is incumbent on the Board in the context of this project to consider whether non-financial information of the kind that might be included in a statement of service performance falls within the scope of general purpose financial reporting.
27. Although not addressed in detail in this paper, a related issue is whether non-financial information would be subject to audit. Some would argue that, if the information is included in the general purpose financial statements, it should be subject to audit. Some are particularly concerned that, to the extent qualitative information is included in general purpose financial statements, it should not be subject to audit (however, we note that risk management information required by AASB 7, which includes qualitative non-financial information, has proven to be auditable). This concern might influence their view on what should be excluded from general purpose financial statements. Although we acknowledge that audit matters might influence some people's views on the issues in this paper, we note that it is not the AASB's role to resolve those matters. Furthermore, we note that all or some aspects of service performance reporting could be explicitly scoped out of an audit. However, we also acknowledge, from a practical point of view, it might be helpful for the Board to have

some regard to audit implications, to the extent they could impact on constituents' views in relation to this project. This might include liaising with Treasury about the implications of the Corporations Act requirements on companies limited by guarantee. Whilst keeping this in mind, this paper does not form a view on whether or not service performance information should be subject to audit. The IPSASB is taking a similar approach in its Performance Reporting project. Its October 2008 minutes indicate that it does not intend to address the issue of audit implications specifically due to potential problems, but will address audit ability and verifiability as part of its consideration of the broader implications of its work on performance reporting.

28. Some might be concerned that the Board does not have the expertise needed to develop guidance on non-financial information. However, arguably the process of developing such guidance would be generic, irrespective of whether it relates to financial or non-financial matters, and as long as the principles are kept at a sufficiently high level (see issue 3.1 below) the Board's level of expertise should not be an impediment.

Issue 2.1: Should service performance information be included in general purpose financial statements?

29. If the answer to this question is 'yes', it is reasonable to conclude that the Board should play a role in determining the principles pertinent to such information. However, some argue that non-financial information does not belong in general purpose financial statements. As reflected in paper 2, the UK Accounting Standards Board's Interpretation *Statement of Principles for Financial Reporting – Interpretation for Public Benefit Entities* (UK SOP) seems to only contemplate non-financial information accompanying and complementing but not forming part of the financial statements (see paragraph 7.15 of the UK SOP). Furthermore, it is apparent from practice in NZ that statements of service performance, where they are provided, are included within annual reports but outside the general purpose financial statements. It is relevant to note that the IPSASB's October 2008 minutes record the IPSASB's decision to not address the question 'should service performance information be reported as a separate external document or within other traditional financial statements?' in its Performance Reporting project.

30. Others argue that, consistent with the objective of financial reports and paragraph 30 of SAC 2 (see paragraph 20 above), there is a not-for-profit specific reason for including non-financial information in general purpose financial statements. They argue that there are types of non-financial information of particular interest in relation to not-for-profit entities (see issue 1.2 above) that rank more highly in importance than financial information. Accordingly, they argue that not-for-profit non-financial information should be given at least equal prominence in general purpose financial statements, in the same way that for-profit financial information is given prominence in the general purpose financial statements of for-profit entities. This might entail a statement of service performance being presented with equal prominence to the conventional primary financial statements.
31. In the context of this issue, it is relevant to note that in the past the AASB has encouraged local governments, government departments and governments to report non-financial performance. In particular, see paragraph 3.2.1(c) of paper 2, which refers to requirements that were in now superseded AAS 27 *Financial Reporting by Local Governments*, AAS 29 *Financial Reporting by Government Departments* and AAS 31 *Financial Reporting by Governments*.
32. As noted in paragraph 21 above, service performance information may be expressed in the form of quantitative or qualitative information. Some might accept that quantitative non-financial information has a place in general purpose financial statements (and that it is auditable) whereas they might not accept that qualitative non-financial information has a place (partly because in their view it is not auditable – see paragraph 27 above). Consistent with the staff view under issue 1.2, and on cost/benefit grounds noted in paragraph 21, arguably the nature of the information that might be included in a statement of service performance included in general purpose financial statements should not be restricted.
33. If a statement of service performance is regarded as part of general purpose financial statements, there are different ways in which such a statement could be incorporated into the general purpose financial statements. For example, the statement could be provided directly or incorporated by reference. The manner in which statements of

service performance should be incorporated into general purpose financial statements, if the Board decides that they should be, will be addressed in a future paper.

34. The **staff view** is that, given the importance of service performance information to private sector not-for-profit entities, statements of service performance, which might include both quantitative and qualitative information, should be included in their general purpose financial statements.

35. **Question for the Board:** Do you agree that service performance information, whether quantitative or qualitative, relevant to an assessment of a private sector not-for-profit entity's principal objective should be included in general purpose financial statements?

Issue 2.2: Is it the Board's role to consider service performance reporting issues even if such reporting is determined to be outside the scope of general purpose financial statements?

36. The Board's focus on general purpose financial statements is demonstrated in its work in the Differential Reporting project, where it is evident that the Board considers its role to be only in relation to general purpose financial statements. It is also evident in comments about the relationship between the AASB and the Water Accounting Standards Board (WASB). For example, in a recent article published in *Charter* (September 2009, pages 20 and 21) by Keryn Chalmers, Jayne Godfrey and Brad Potter 'What's new in water and carbon accounting', the comment is made that "While interested in developments in water accounting, the preference of the ... AASB ... has been to maintain a watching brief rather than an active role in water accounting standard-setting, unless and until water accounting standards require the preparation of financially denominated water accounts." This seems to be consistent with the sentiment of a letter from the Chair of the Financial Reporting Council to the Chair of the WASB dated 21 May 2009 (see agenda paper 13.1 of the AASB 24-25 June 2009 meeting). Therefore, if the Board concludes in relation to issue 2.1 that statements of service performance are outside general purpose financial statements (albeit within annual reports whether directly or incorporated by reference), the Board

need not give further consideration to the issues. Despite this, for completeness, issue 2.2 considers whether it is the Board's role to consider non-financial reporting issues even if they are outside the scope of general purpose financial statements.

37. Although accounting standard setters tend to focus on financial information in general purpose financial statements, there is precedent for them addressing non-financial information that is located outside the general purpose financial statements. The involvement of standard setters with non-financial information outside the general purpose financial statements, in particular service performance reporting, is outlined in paper 2. That paper demonstrates that precedent can be found in Conceptual Frameworks and existing Standards (eg the NZ FRSB, IPSASB and other standard setters including in Canada and the US GASB have addressed or are addressing service performance reporting issues).
38. The **staff view** is the Board should address service performance reporting issues even if it is concluded that such reporting is outside general purpose financial statements.

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| <p>39. Question for the Board: Do you agree that the Board has a role to play in determining/influencing the form and content of service performance reporting even if it is located outside general purpose financial statements?</p> |
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Issue 3: At what level of detail should the Board consider specifying the disclosure of service performance information of private sector not-for-profit entities?

Issue 3.1: Detailed level or principles level?

40. The non-financial objectives of not-for-profit entities would be expected to differ from entity to entity. For example, the objectives of a charity would be expected to differ from the objectives of a member-based organisation; and the objectives of one charity would be expected to differ from the objectives of another charity. This potential diversity of non-financial objectives would leave a standard setter with the challenge of addressing the issues where the only commonality across entities is their not-for-profit status.

41. The challenge of diversity is not as great in a for-profit context because the common objective of profit provides its own focus. However, even in the for-profit environment there are challenges, for example, due to the differences between financial institutions and non-financial institutions. The IASB has dealt with this diversity in the for-profit sector using techniques such as specifying that financial reporting should reflect a ‘through the eyes of management’ view (see for example AASB 8 *Operating Segments*) or consistent with the reporting entity’s ‘business model’ (see for example the IASB proposals in ED/2009/7 *Financial Instruments: Classification and Measurement* (July 2009) in relation to the classification of financial instruments). This part of the project, in a future paper (perhaps paper 5), will explore the merits of adapting these approaches to a private sector not-for-profit service performance reporting context.

42. Given the potentially diverse range of objectives pursued by private sector not-for-profit entities, it would not be practicable for the Board to specify disclosure requirements for each objective. Even if the sector were stratified (eg charities/member-based; or by legal structure; or by nature of principal activity; or by principal source of funding), there would still be diversity within each category. Therefore, the most practical and arguably most suitable way for the Board to proceed would be to develop high level principles that any private sector not-for-profit entity could follow in reporting service performance. Those principles should be applicable to all private sector not-for-profit entities and could be supplemented by specific examples, perhaps for different categories of entities. This is consistent with the Board’s more general principles-based approach to standard setting. Furthermore, it is relevant to note that the IPSASB’s October 2008 minutes indicate the IPSASB’s intention to pursue a principles-based approach to its Performance Reporting project.

43. The **staff view** is that the Board should specify generic principles in relation to service performance reporting that could apply to all private sector not-for-profit entities. Any differential reporting issues (ie big vs small) should be addressed in the Board’s Differential Reporting project.

44. **Question for the Board:** Assuming the answers to issues 1 and 2 are 'yes', do you agree that the Board should aim to develop high level principles for service performance reporting applicable for all private sector not-for-profit entities?

Issue 3.2: Provide users with input for them to do their own analysis or provide users with an analysis?

45. Another issue relevant to the level-of-detail question in issue 3 is the extent of any analysis that should be provided to users. For example, should the principles that might be developed focus on the provision of information relevant to a user's own analysis, or should the principles contemplate the provision of analysed information?
46. Australian Accounting Standards generally do not require information provided in accordance with them to be analysed. Typically GAAP provides information and leaves it to users to undertake their own analysis. For example, although GAAP provides financial information about current assets and current liabilities, users choose whether to calculate a working capital ratio. Furthermore, GAAP provides profit and asset measures, and users choose whether to calculate a return on assets. One exception to this approach is AASB 133 *Earnings per Share*, which goes beyond requiring the disclosure of earnings and quantity of shares to requiring those numbers to be 'analysed' into ratios of the two, and separately disclosed.
47. The typical approach adopted for financial information described in paragraph 46 above could also be adopted for non-financial information. For example, if an objective of a charity is to provide meals for the maximum number of homeless men, then quantitative information about that objective might be disclosed in the form of the physical number of meals served, the total costs of providing the meals, the number of homeless men served and the total number of known homeless men in the region. It would be up to users to decide whether to determine a coverage rate (eg number of men served meals to total number of known homeless men) and a cost-per-meal and which costs are included. This approach has the benefit of allowing the Board to consider user needs from a generic perspective, without needing to know the different ways in which users might want to analyse information in particular

circumstances. However, arguably it would be useful to know, at least anecdotally, how users might analyse information, to help identify what should be disclosed.

48. The **staff view** is that service performance reporting should focus on providing information that facilitates users' analyses rather than providing analysed information.

49. **Question for the Board:** Assuming the answers to issues 1, 2 and 3.1 are 'yes', do you agree that the principles to be developed by the Board should focus on providing information that can be used by users as input to their analysis, rather than providing an analysis?

Issue 4: Should the Board aim to develop mandatory or voluntary guidance on service performance reporting?

50. As noted in paper 1, currently NZ FRSB Technical Practice Aid TPA-9 *Service Performance Reporting* is non-mandatory. An issue the FRSB intends addressing as part of its project reviewing TPA-9 is whether the guidance (once reviewed) should be mandatory. The IPSASB's October 2008 minutes note that the IPSASB intends to issue a Consultation Paper on performance reporting and decide whether to develop an Exposure Draft of Reporting Requirements or voluntary Guidance following analysis of submissions on the Consultation Paper.
51. Benefits of making the guidance mandatory include enhanced comparability across entities and better facilitation of the acquittal of accountability obligations. However, given the newness of the ideas that might be developed from this part of the project, there might be merit in initially allowing reporting practices to develop within a non-mandatory framework. Furthermore, if it is non-mandatory, it might avoid the audit implications noted in paragraph 27 above, for example in relation to companies limited by guarantee.
52. The **staff view** is that, until the principles are developed, it would be premature to draw a conclusion on this issue.

53. **Question for the Board:** Do you agree that the question of whether any pronouncement that may be developed by the AASB on service performance reporting is mandatory or voluntary should be deferred until the content of the pronouncement is developed?

Issue 5: Are there any implications for for-profit entities?

54. In light of the Board's transaction-neutral approach to setting accounting standards, an issue arises as to whether the principles that might be developed in this project should be considered for application to for-profit entities, particularly in light of paragraph 19 above, which suggests non-financial information is relevant to for-profit entities. It is difficult to answer this question until the principles are developed, but a view is that issues being addressed in this part of the project are specific to not-for-profit entities. This is because it is the very definition of 'not-for-profit entity' (see AASB 102.Aus6.1) and its reference to 'principal objective is not the generation of profit' that is the genesis for this project. Therefore, it would not necessarily be expected that the conclusions in this project have a flow-on effect to for-profit entities.
55. Furthermore, it has been generally accepted that the not-for-profit sector differs from the for-profit sector in as basic a form as, for example, perspectives on assets. Future economic benefits are often understood in the not-for-profit sector as relating to service potential (which although typically expressed in financial terms can also be expressed in non-financial terms) rather than the narrower financial notion of future cash flows, in order to deal with non-cash generating assets. These kinds of differences are reflected in particular Aus paragraphs in the Board's standards. Therefore, it is arguably not unreasonable to extend that difference in perspective to the need for service performance reporting in the not-for-profit sector despite it not being considered necessary for the for-profit sector.
56. From a more practical perspective, we note that it would be a significant constraint on the timely progress of this project to include for-profit entities within its scope.
57. The **staff view** is that the scope of this project should exclude for-profit entities.

58. **Question for the Board:** Do you agree that the service performance reporting aspect of this project can be progressed without having regard to the implications for the for-profit sector?

Issue 6: Are there any implications for public sector not-for-profit entities?

59. We think that the principles that could be developed by the Board would have the potential to be applied to public sector not-for-profit entities, because we would expect the principles to be developed primarily from the more general not-for-profit perspective rather than from a specific private sector not-for-profit perspective. However, any specific guidance, such as examples for particular categories of private sector not-for-profit entities as contemplated in paragraph 42 above, would not necessarily readily translate to a public sector context.
60. Arguably, the not-for-profit private sector is significant in its own right and therefore warrants particular attention. Whilst acknowledging this, we intend drawing on practices in the public sector as we develop ideas for the private sector. This would be beneficial, because, as reflected in paper 2, the majority of jurisdictions in Australia have adopted something like the NZ service performance reporting (output-based) framework. Particular consideration could be given to differences between the framework used by Australian jurisdictions compared with the NZ framework, thus providing a reference for identifying implications for Australian private sector not-for-profit entities.
61. We note that it would be a significant constraint on the timely progress of this project to include public sector entities within its scope. However, arguably there would be merit in considering the outcome of this project specifically for public sector not-for-profit entities once the issues have been fully addressed for private sector not-for-profit entities.

62. The **staff view** is that the scope of the project should exclude public sector entities. However, in due course, the suitability of the outcome of the project for public sector not-for-profit entities should be considered.

63. **Question for the Board:** Do you agree that the focus of this project should continue to be on private sector not-for-profit entities, having regard to requirements and practices in the not-for-profit public sector, with a view to considering in due course the suitability of the outcome of this project for public sector not-for-profit entities?

Issue 7: How should the AASB's project integrate with NZ FRSB and IPSASB work?

64. Paper 1 summarises the current status of the NZ FRSB and IPSASB work. It indicates that, compared with the AASB, service performance reporting is not as high a priority of either standard setter. The FRSB has indicated that it will conduct a full review of existing requirements and guidance relating to the statement of service performance as resources permit and consider the issue of segment reporting or disaggregated reporting by public benefit entities as part of its project. The IPSASB has approved a Performance Reporting project, though it is currently awaiting initiation until further review of the responses to the IPSASB Conceptual Framework phase 1. Given the interest in the topic in Australia, work could progress and include monitoring of NZ FRSB and IPSASB without being constrained by them. As the Board progresses, it could provide its findings to the NZ FRSB and IPSASB for their information.

65. The **staff view** is that the project should proceed and include monitoring of, and contributing to, the NZ FRSB/IPSASB work.

66. **Question for the Board:** Do you agree that we should continue to progress our own work, continue to monitor progress on NZ FRSB/IPSASB work, and provide the outcome of our work progressively to NZ FRSB/IPSASB?