

Exposure Draft Summary—Recommended Practice Guideline Reporting Service Performance Information

This summary provides an overview of Exposure Draft (ED) 54, Reporting Service Performance Information.

Project objective:

This project has the objective of using a principles-based approach to develop a consistent framework for reporting service performance information that focuses on meeting the needs of users.

The project and stage:

The IPSASB issued ED 54 in December 2013.

Next steps:

The IPSASB seeks feedback to guide it in developing a final Recommended Practice Guideline (RPG) that will assist an entity with the reporting of service performance information.

Comment deadline:

The ED is open for public comment until May 31, 2014.

Why is the IPSASB Undertaking this Project?

The objective of the IPSASB's project on reporting service performance information is to use a principles-based approach to develop a consistent framework for reporting service performance information that will meet the needs of users.

The proposed RPG, ED 54, addresses the need for guidance on reporting service performance information. Presently there is no IPSASB pronouncement on this topic.

The primary function of governments and most public sector entities is to provide services to constituents. Users of general purpose financial reports need information on service performance to hold entities accountable and to make decisions, including decisions with respect to resources applicable to service provision.

This proposed RPG aims to support the provision of high quality service performance information by entities, whether they are already reporting service performance information or plan to begin reporting such information in the future.

This project is consistent with the IPSASB's strategic priority of developing requirements and guidance on public sector specific issues. It reflects the IPSASB's position that the scope of financial reporting is more comprehensive than the financial statements.

Public sector entities provide a wide range of services including:

- (a) Services provided directly to individuals and institutions, for example, health or education services or the provision of goods such as food or books;
- (b) Services provided indirectly to individuals and institutions, for example, services which aim to develop, promote, protect or defend a community, institution, country, or community values and rights;
- (c) Transfers to individuals and institutions;
- (d) Provision of policies, regulations or legislation to achieve public policy goals; and
- (e) Collection of taxes and other revenues.

When would an entity apply this Recommended Practice Guideline?

The reporting of service performance information in accordance with this ED represents good practice.

Status

Entities will be encouraged to follow this RPG when they report service performance information. However, entities are *not* required to comply with this RPG in order to assert that an entity's financial statements comply with International Public Sector Accounting Standards (IPSASs).

Scope

This RPG is applicable to all public sector entities other than Government Business Enterprises (GBEs).

Although this RPG does not apply directly to GBEs, the services related to a GBE controlled by the reporting entity are within the scope of this RPG.

This RPG sets out good practice for reporting service performance information. It provides:

- (a) Guidance on presentation decisions with respect to service performance information that will meet users' needs; and
- (b) Recommended minimum characteristics for reporting service performance information.

The exclusion of GBEs from the scope of this RPG does not mean that this guideline could not be applied by GBEs. The IPSASB considers that where GBEs report service performance information the guidance in this RPG would be useful for such reporting.

Where a controlling entity provides information on services provided by one or more controlled GBEs, information about the GBEs' services, reported by the controlling entity, needs to follow the RPG's requirements.

What is service performance information?

Service performance information is information for users on an entity's service performance objectives, its achievement of those objectives, and the services that the entity provides.

Service performance information can assist users to assess an entity's service efficiency and effectiveness.

Service Performance Objectives

A *service performance objective* is a description of the planned result (or results) that an entity is aiming to achieve expressed in terms of inputs, outputs, outcomes, efficiency or effectiveness.

Service performance objectives may be expressed using *performance indicators* of inputs, outputs, outcomes, efficiency, or effectiveness. A service performance objective may also be expressed using a narrative description of a desired future state resulting from provision of services.

Performance Indicators

Performance indicators are quantitative measures, qualitative measures, and/or qualitative discussions of the nature and extent to which an entity is using resources, providing services, and achieving its service performance objectives.

Achievement of Service Performance Objectives

The service performance information presented should be tailored to the entity's service performance objectives.

For effective accountability entities should:

- (a) Establish clear service performance objectives before the start of the reporting period; and
- (b) Provide clear information at the end of the reporting period on the extent to which those objectives were achieved during the reporting period.

Performance indicators may be:

- Quantitative measures, for example, the number of outputs produced, the cost of services, the time taken to provide a service, or a numerical target for an outcome;
- Qualitative measures, for example descriptors such as poor/good/excellent or satisfactory/unsatisfactory; or
- A qualitative discussion.

Types of Performance Indicators

ED 54 proposes definitions for five types of performance indicator:

- *Inputs;*
- *Outputs;*
- *Outcomes;*
- *Efficiency; and*
- *Effectiveness.*

Inputs

Inputs are the *resources used* by an entity to provide outputs.

Outputs

Outputs are the *services provided* by an entity to recipients *external* to the entity.

Outcomes

Outcomes are the *impacts on society*, which occur as a result of the entity's outputs, its existence and operations.

Efficiency

Efficiency is the relationship between (a) inputs and outputs, or (b) inputs and outcomes.

Effectiveness

Effectiveness is the relationship between actual results and service performance objectives in terms of outputs or outcomes.

Resources used include: (a) human resources or labour, (b) capital assets such as land, buildings and vehicles, (c) cash and other financial assets, and (d) intangible assets such as intellectual property. *Inputs* are also reported in terms of costs incurred.

Public sector entities provide a wide range of *services*. The receipt of services by recipients *external* to the entity is a critical factor in deciding whether services are *outputs*, rather than services consumed internally as part of an entity's production of outputs.

Impacts on society may include, amongst other things, impacts on educational achievements, on poverty and crime levels, and on the health of different groups within society.

Other things being equal, if outputs can be produced at less cost than before, then production *efficiency* has improved and an efficiency indicator designed to report that type of efficiency gain will show an improvement.

The more *effectively* an entity operates as a service provider, the better will be its actual results (outputs actually provided or outcomes actually attained), when measured against its planned results.

Principles for Reporting Service Performance Information

An entity should report service performance information that is useful for accountability and decision making. It should enable users to assess the entity's:

- (a) Service delivery activities and achievements during the reporting period;*
- (b) Financial results in the context of its achievement of service delivery objectives; and*
- (c) Efficiency and effectiveness.*

The presentation of service performance information should be appropriate to the entity's service performance objectives.

The presentation of service performance information should meet the *qualitative characteristics* of financial reporting.

The *pervasive constraints* on information in general purpose financial reports should also be applied to service performance information. The constraints are: materiality, cost-benefit, and balance between the qualitative characteristics.

Where the entity's service performance objectives change, the information presented should reflect the change.

Qualitative characteristics applied to service performance information:

Relevance: Service performance information should be useful for (a) holding the entity accountable for its service provision and (b) users' decision making.

Faithful Representation: Service performance information should provide an unbiased representation of the service performance of an entity's services.

Understandability: Service performance information should be communicated to users simply and clearly.

Timeliness: Service performance information should be reported to users before it loses its capacity to be useful for accountability and decision making purposes.

Comparability: Service performance information should provide users with a basis and context to compare an entity's service performance over time, against targets, and to other entities.

Verifiability: Service performance information should provide users with a basis for assessing whether the information in a service performance report could be replicated by independent bodies using the same measurement approach.

Service performance information and the financial statements

An entity may present service performance information either:

- (a) As part of a report that includes the financial statements; or,*
- (b) In a separately issued report.*

Factors to Consider

Factors to consider when making this decision:

- The extent to which the service performance information needs to be reviewed within the context of information in the financial statements;
- Whether users' needs and the qualitative characteristics are enhanced if the service performance information is included in the same report as the financial statements or in a separate report;
- Application of the constraints on information, including whether the benefits of including the information in the same report as the financial statements justify the costs involved; and
- Whether there are jurisdiction-specific factors, such as legal provisions, which specify that service performance information should be located either in the same report as the financial statements or in a separate report.

Disclosures when in Separate Report

Where the service performance information is presented separately from the report that includes the financial statements, the following information should be presented:

- (a) The name of the entity;
- (b) Where the entity is a controlling entity, a description of the group of entities controlled by the reporting entity;
- (c) Where the entity is a controlled entity, the identity of the controlling entity;
- (d) The reporting date and the reporting period covered by the service performance information;
- (e) The financial statements to which the service performance information relates and sufficient information necessary for users to locate the financial statements;
- (f) The presentation currency, as defined in IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*; and
- (g) The level of rounding used.

Presentation of Service Performance Information

Service performance information should identify an entity's important services, relevant performance indicators and other information relevant to those services.

Information for Display

The following information should be displayed for each relevant service:

- Service performance objectives;
- Performance indicators showing achievements for the service performance objectives; and
- Information on the cost of services.

Information for Disclosure

The following information should be disclosed:

- *Narrative discussion and analysis* to support users' assessments of the efficiency and effectiveness of services;
- *Reconciliation or comparison* between reported service related costs and the expenses reported in the entity's financial statements; and
- Sufficient information for users to understand the *basis* of the service performance information presented.

With respect to *performance indicators* and *service costs*, the entity should display:

- Planned and actual information for the reporting period; and
- Actual information for the previous reporting period.

Narrative discussion and analysis should include:

- Identification and discussion of the factors that may have influenced results, including those influencing achievement (or non-achievement) of service performance objectives;
- Identification and discussion of the risks associated with the delivery of services; and
- Identification and discussion of the consequences—intended and unintended, direct and indirect—of the services provided.

Reconciliation or comparison could be between, for example, (a) total costs of services and total expenses, or (b) costs related to individual services or groups of services and costs reported for different segments.

Judgment is needed to decide what information should be disclosed to explain the *basis* of presented information.

Next Steps:

The deadline for comments is May 31, 2014.

During the comment period, the IPSASB members are available to discuss the proposals with a wide range of parties.

How Can I Comment on the Proposals?

The ED includes Specific Matters for Comment (SMCs) on which the IPSASB is seeking views.

Respondents may choose to answer all SMCs or just a selected few. The IPSASB welcomes comments on any other matters respondents think we should consider in forming our views.

Comment letters will be posted on the IPSASB website.

The IPSASB will carefully consider all feedback and, as usual, discuss responses to the proposals at its public meetings after the comment period has ended.

The IPSASB plans to issue a final pronouncement on reporting service performance information, reflecting its actions to address respondents' comments, in the first half of 2015.

Stay Informed

The IPSASB will announce on its website the dates and location of meetings to discuss feedback on this Exposure Draft.

To stay up to date about the project, please visit:

<https://www.ifac.org/public-sector/projects/reporting-service-performance-information>