

Future Direction of the AASB's Service Performance Reporting Project

Purpose of this Paper

- 1 The purpose of this Paper is to facilitate a Board decision on the future focus of the work relating to the AASB's Service Performance Reporting project. It addresses the question of whether the focus should be shifted from:
 - (a) 'green fields' research that only 'has regard to' International Public Sector Accounting Standards Board (IPSASB) developments on the topic; to
 - (b) using the IPSASB's work on the topic as 'the basis for' developing an Australian pronouncement (similar to the approach to the AASB's Service Concession Arrangements – Grantor project, which is being progressed using IPSAS 32 *Service Concession Arrangements: Grantor* as its base).
- 2 It is not intended that the Board redeliberate on whether the project should remain on the AASB agenda. The Board has previously debated the merits of pursuing the project, and no new information has come to light that would suggest that the question should be redebated. In relation to the question of whether ultimately the Board will decide to issue a Standard on the topic, at this stage the Board has merely decided to undertake the project to identify the principles that should apply **if** an AASB Standard were to be developed. In any event, it is not until the potential content of such a Standard has been determined (through this project) that an informed decision could be made about whether it is needed and indeed, if so, whether it should be mandatory or voluntary.

Background

The AASB's project to date

- 3 The AASB initiated the Service Performance Reporting project in 2009 as part of its response to concerns expressed by constituents that the disclosures required of private sector not-for-profit entities by existing Australian Accounting Standards are not sufficiently targeted to the needs of users.
- 4 Progress on the project has been slower than intended due to the impact of other priorities of the Board, combined with staff illnesses. Despite this, AASB staff have conducted a significant amount of research into current practice and, more recently, in developing their thoughts on potential service performance reporting principles. At its meetings spanning September 2009 to April 2012 the Board has tentatively concluded that:
 - (a) the project should proceed on the basis that the Board's role is to develop service performance reporting principles;
 - (b) performance information (which includes service performance information) within general purpose financial reporting is bounded by parameters identified in the AASB Conceptual Framework – including the objective of reporting;
 - (c) the users of service performance information are the same users as those outlined in the AASB Conceptual Framework;

- (d) the purposes for which users require service performance information are to determine:
 - (i) whether the entity is performing efficiently and effectively against its objectives and is meeting or is able to meet the needs of its service recipients;
 - (ii) whether to commence or continue providing resources;
 - (iii) the amount of resources to contribute to support the entity's objectives; and
 - (iv) whether the entity will be able to continue to provide intended goods and services in future periods;
- (e) service performance reporting should be described as incorporating:
 - (i) the objectives of an entity;
 - (ii) obtaining and using resources;
 - (iii) providing outputs;
 - (iv) achieving outcomes; and
 - (v) an entity's ability to continue to provide intended goods and services (ie sustainability); and
- (f) a parameter for particularly constraining information about service performance presented within general purpose financial reporting is: 'the information about the entity's performance in providing goods and services' that relates to an entity's performance against its specified objectives.

5 Consistent with these Board decisions, staff have most recently been progressing a Consultation Paper (CP) that would ultimately put forward the AASB's preliminary views on principles for reporting information about an entity's service performance. A draft of the CP has already been reviewed by a project advisory panel, and the next draft (if the Board were to decide, based on this Paper, to proceed with the CP) would be reviewed by a sub-committee of the Board before being considered by the full Board.

The IPSASB's project

6 The IPSASB issued Exposure Draft ED 54 *Reporting Service Performance Information* – Proposed Recommended Practice Guideline in December 2013, for comment by 31 May 2014.¹ (Agenda paper 14.2 provides AASB staff views on the main comments we think should be included in the AASB's submission on IPSASB ED 54, and provides a 'technical' analysis of the ED and thereby provides the Board

1 A precursor to IPSASB ED 54 was IPSASB Consultation Paper (CP) *Reporting Service Performance Information* (October 2011). The [AASB's submission on the CP](#) was informed by the work AASB staff had been doing on the AASB's 'green fields' project.

with further input for any assessment it might make of the extent to which Australian adaptations might be needed).

- 7 IPSASB ED 54 addresses many of the issues AASB staff have been working on in our ‘green fields’ work, and in many respects comes to broadly similar conclusions that we were coming to in the draft CP, particularly on matters relating to an entity’s objectives, inputs, outputs and outcomes. Hence, we think it timely for the Board to consider whether it should continue down the path of an AASB ‘green fields’ CP, or change its focus to adapting the IPSAS’s work to meet Australian needs. We anticipate the latter approach would provide a more timely and less resource intensive path to any AASB pronouncement that might be forthcoming.
- 8 In paragraphs 9 – 17 below, we consider the broad factors that we think are relevant to the Board deciding whether to change the focus of its work on service performance reporting in this way.

Relevant Factors

IPSASB’s focus is on public sector entities

- 9 In contrast to the AASB’s transaction-neutral policy, the IPSASB only addresses service performance reporting issues from a public sector perspective. Therefore, the AASB needs to consider whether that more limited perspective might lead to principles that are unsuitable/inadequate for the Australian private not-for-profit sector.² As noted in agenda paper 14.2, we have some concern that IPSASB ED 54 does not adequately address, for example, an entity’s performance in obtaining resources (including volunteer services) – an aspect we think is particularly important in a not-for-profit private sector context. However, we do not think that the IPSASB’s focus on the public sector would present insurmountable issues for us. If any shortcomings remain in a final IPSASB pronouncement, they could be redressed through Australian adaptations.

IPSASB’s focus is on non-mandatory guidance

- 10 In contrast to the AASB’s policy of not issuing non-mandatory pronouncements³, the IPSASB’s suite of pronouncements includes non-mandatory Recommended Practice Guidelines (RPG). The outcome of IPSASB ED 54 is intended to be a RPG.
- 11 While the AASB’s policy is to develop standards-level requirements, we note that in relation to service performance reporting the Board could decide to adopt the approach it took in AASB 1055 *Budgetary Reporting*, which specifies requirements that only

2 The AASB originally decided that its project should focus on private sector not-for-profit entities, but with a view to eventually extending the scope to include the public sector. Hence, despite the initial focus on private sector not-for-profit entities, the intention was always to develop sector-neutral principles.

3 This AASB policy is also apparently in contrast to the policy of the IASB, which has non-mandatory Practice Statements among its pronouncements (albeit that it has only issued one such document to date: Practice Statement *Management Commentary – a framework for presentation*. The AASB decided not to issue that Practice Statement as an AASB Practice Statement – instead deciding to merely provide a link to it from the AASB website, acknowledging that other guidance on management commentary already exists in Australia, and that existing guidance might take precedence over the IFRS Practice Statement.)

apply when an entity's budget is presented to parliament. In a similar way, a service performance reporting standard could be issued that specifies requirements that apply only in relation to service performance information an entity elects to publish, or where an entity makes its service performance objectives public. In any event, that is a matter that would need to be considered once the content of a potential pronouncement has been determined. Therefore, we do not consider that the IPSASB's focus on developing an RPG, rather than an IPSAS, would render the IPSASB's work inappropriate as a basis for developing an Australian Standard – any adaptations needed could be made through the process of Australianising the RPG.

IPSASB's focus is on developing guidance that is suitable in a global context

- 12 In contrast to the AASB's focus on Australia, the IPSASB has a broader focus on the global context. Paragraph BC8 of IPSASB ED 54 notes "the challenge in developing guidance that would be useful when applied to diverse services, diverse service performance objectives, and diverse accountability and decision-making contexts world-wide." Setting a national (Australian) standard for not-for-profit entities in the private (and public) sectors would face a similar challenge, except that the national context would be expected to be more manageable than the world-wide context. The IPSASB concluded in paragraph BC9 of IPSASB ED 54 that it should not attempt to "establish global requirements that may not be appropriate for the variety of different services and different service delivery contexts that exist globally." We do not consider that the Board faces an insurmountable challenge in the Australian context.

IPSASB has a different Conceptual Framework

- 13 IPSASB ED 54 is written within the context of the IPSASB's Conceptual Framework, which differs from the AASB's Conceptual Framework. For example, the IPSASB's Conceptual Framework contemplates general purpose financial reports (GPFs) comprising multiple reports, each responding more directly to certain aspects of financial reporting and matters included within the scope of financial reporting (see paragraph 1.6 of IPSASB *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (January 2013)). Therefore, the IPSASB's Conceptual Framework contemplates a separate report for the reporting of service performance information.
- 14 If the Board decides to base its pronouncement on the IPSASB RPG, those aspects of the RPG affected by the IPSASB Conceptual Framework that are not consistent with the AASB Conceptual Framework would need to be adapted. But, again, we do not expect those adaptations to create insurmountable hurdles.

Timeliness

- 15 The IPSASB Work Plan 2014-2015 as at February 2014 anticipates the IPSASB reviewing the responses to IPSASB ED 54 (due to the IPSASB by 31 May 2014) in September/December 2014; discussing issues in December 2014/March 2015 and finalising a RPG in June/September 2015. An AASB ED (or CP [based on the IPSASB's work] if so decided) could be under development during that time with a view to issuing it within a short time after the IPSASB issues its RPG (see the 'possible project plan' at the end of this paper). Staff would not expect to achieve such a timeframe if the Board continues with a 'green fields' approach.

AASB comments on IPSASB ED 54

- 16 The issues that IPSASB ED 54 addresses can be broadly classified into two categories. The first category includes those relating to the service performance reporting that broadly correspond to financial reporting's recognition and measurement principles. These address matters of objectives, inputs, outputs and outcomes. Given the AASB's decisions to date (see paragraph 4 above) and the subsequent AASB staff work so far, we expect these areas would require the least amount of adaptation. Therefore, it is these aspects of IPSASB ED 54 that we think form the soundest basis for us to proceed.
- 17 The second category includes those relating more to presentation and disclosure type matters, including;
- The reporting boundary
 - Frequency of reporting and length of reporting period
 - Location of information – within financial statements or a separate report
 - The manner in which information is displayed

Some of these are less readily adaptable to the Australian context, and therefore could form the basis of the Board's initial adaptation work.

AASB Staff recommendation

- 18 Based on the above analysis, staff recommend the Board change its focus from 'green fields' research to adapting the IPSASB's work to meet the needs of the Australian environment.

Possible Project Plan

Action	Timing
Submit comments to IPSASB on IPSASB ED 54	April/May 2014
Monitor IPSASB's review of responses (including AASB staff briefing the Australian IPSASB representative)	September/ December 2014
Monitor and react to IPSASB's discussion of issues (including AASB staff briefing the Australian IPSASB representative)	December 2014/ March 2015
Review the suitability of the principles in the RPG (June/September 2015) for Australia (using the results of AASB staff research to date as a basis for recommending modifications to the RPG principles)	June 2015 – November 2015
AASB ED* – 120-day comment period (*this plan assumes the AASB proceeds directly to an ED [presenting the Board's firm proposals]. If instead the Board decides a CP is warranted [presenting only the Board's preliminary views], the time before a final pronouncement could be issue would lengthen)	December 2015