

## Service Performance Reporting – Objective of Service Performance Reporting

### AASB Staff Issues Paper

#### Introduction

- 1 At the September 2014 AASB meeting staff provided the Board with an overview of the key elements of the AASB Service Performance Reporting (SPR) project, the New Zealand Accounting Standards Board (NZASB) project and the International Public Sector Accounting Standards Board (IPSASB) project. The Board noted the absence of an objective for SPR in the AASB project and requested staff to prepare a paper articulating the objective of SPR. The Board noted that determining the objective of service performance reporting is a key aspect of the SPR project because without an objective of what SPR is trying to achieve, it is not possible to determine the principles that should be included in standard.
- 2 The purpose of this paper is to provide an objective of SPR for the AASB SPR project in the context of the Board's decision in April 2014 to reorient the Board's work on the project to draw on IPSASB ED 54 *Reporting Service Performance Information* and the NZASB project.

#### Background

- 3 In 2010 and 2011 staff conducted research into domestic and international requirements and practices relating to service performance reporting. This research included an analysis of explicit objectives of service performance reports prepared in practice.<sup>1</sup> In June 2011 an initial draft of Paper 7.8.2A *Principles of service performance reporting – the objective of service performance reporting* was sent to the SPR Project Advisory Panel and PBE Working Group members<sup>2</sup>. An updated subsequent draft was also sent to the AASB subcommittee and former New Zealand Financial Reporting Standards Board (FRSB) subcommittee. This paper included consideration of the findings of the research conducted in 2010 and 2011.
- 4 According to February 2012 AASB Agenda Paper 12.3 *Memorandum: Service Performance Reporting*, the comments received from the various parties on Paper 7.8.2A and papers on other issues relating to the SPR project, were considered in developing the agenda papers for that meeting. However, none of the agenda papers for that meeting specifically discussed the objective of SPR. The objective of SPR has not been subsequently discussed by the Board.
- 5 Based on the objective of general purpose financial reporting and Statement of Accounting Concept 2 *Objective of General Purpose Financial Reporting* (SAC 2), Paper 7.8.2A tentatively proposed the objective of service performance reporting could be articulated as:

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<sup>1</sup> At the February 2012 Board meeting, the Board decided that the findings from the project team's research should be used as one of the benchmarks for the possible principles of SPR that are being developed rather than aiming to codify current practice.

<sup>2</sup> At this time the project was a joint project with the then New Zealand Financial Reporting Standards Board (FRSB)

## Objective of General Purpose Service Performance Reporting

*General purpose service performance reports shall provide information useful to users for making and evaluating decisions about the allocation of scarce resources.*

### **Accountability**

*Managements and governing bodies shall present general purpose service performance reports in a manner which assists in discharging their accountability.*

### **Information disclosures**

*General purpose service performance reports shall disclose information relevant to the assessment of service performance, including information about compliance.*

- 6 Whilst acknowledging the work that has been previously undertaken by staff and the Project Advisory Panel, staff are of the view that this objective should not be considered further by the Board on the basis that:
- (a) since this objective was proposed, work on the project has been reoriented to focus on the existing work of the NZASB and IPSASB, rather than 'greenfields' research. Therefore, the objectives applied by the existing work from NZASB and IPSASB should be taken into consideration in developing the objective for the SPR project;
  - (b) since this objective was proposed, SAC 2 has been withdrawn and replaced by the *Australian Conceptual Framework (Framework)*. The *Framework* includes accountability as an implicit rather than explicit objective of general purpose financial statements<sup>3</sup>; and
  - (c) on reflection, staff consider the proposed objective is too broad to articulate the type of information that would be reported for SPR purposes.

### *Staff recommendation*

- 7 Accordingly, staff recommend that, rather than proceeding to reconsider the draft objective outlined in paragraph 5 above, the objective of SPR be considered by the

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<sup>3</sup> Although it is not the purpose of this paper to discuss the issue of the relationship between service performance reporting and the *Framework*, staff note that in February 2012 the Board decided the following:  
*In the interest of providing pragmatic boundaries to the Board's future work on this topic within the context of general purpose financial reporting, the Board decided to proceed on the basis that:*  
(a) *performance information (which includes service performance information) within general purpose financial reporting is bounded by parameters identified in the Conceptual Framework. Those parameters are:*  
i. *the target of analysis (i.e. the entity); and*  
ii. *the objective of reporting (i.e. to provide information that meets the common information needs of users for making decisions about an entity that involve the allocation of scarce resources...*

Although the *Framework* was updated by the AASB in 2013, staff consider that the previous decision by the Board in 2012 remains relevant. Accordingly the staff analysis in this paper analyses the objective service performance reporting within the objective of reporting as provided in the *Framework* 2013.

Board with reference to the NZASB and IPSASB projects, having regard to the research previously undertaken by AASB staff in 2010 and 2011.

**Question 1 for the Board**

Does the Board agree with the staff recommendation in paragraph 7 above that the objective of SPR be considered by the Board with reference to the NZASB and IPSASB projects, having regard to the research previously undertaken by AASB staff in 2010 and 2011?

**Objective of Service Performance Reporting**

8 Paper 7.8.2A (discussed above) included a list of the most common objectives of SPRs from research into practice. There were as follows:

- (a) providing for stakeholder accountability for the responsible use of resources, including demonstrating that an entity's services are being delivered effectively and efficiently;
- (b) decision usefulness; and
- (c) assisting an entity in the management of resources and performance of an entity.

9 The NZASB and IPSASB projects have also articulated the core principle of SPR as follows:

*New Zealand*

*The aim of a statement of service performance is to report meaningful information on the goods or services an entity has produced and why the entity has produced those goods and services, to enable users to assess the entity's performance in supplying those goods or services, including the effectiveness and efficiency with which they are applied, and so enable an entity to discharge its accountability.*

*IPSASB*

*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 achievements of service delivery objectives; and*
- (c) Efficiency and effectiveness of the entity's service delivery.*

10 Analysis of these objectives within the AASB Framework is provided below.

***Internal management***

11 Although the research into practice in Australia noted that assisting an entity in the management of resources and performance of an entity (see paragraph 8(a) above) was a common objective of SPRs, staff do not consider it to be a relevant attribute of an

objective for SPR within the context of general purposes financial reporting because the *Framework* does not identify internal management as a user.

- 12 Accordingly, staff do not recommend incorporating a reference to internal management in the objective for SPR.

**Question 2 for the Board**

Does the Board agree with the staff recommendation in paragraph 12 not to incorporate reference to internal management in the objective for SPR?

**Accountability**

- 13 The research into practice in Australia (see paragraph 8(a) above), the NZASB project and the IPSASB project (see paragraph 9 above) all identify accountability as a common objective of SPR.
- 14 However, a key difference between Australia and NZASB/IPSASB is the role of accountability of management in the *Framework*. The Basis for Conclusions to the *Framework* notes the following in relation to not-for-profit entities:

BC11 The Board noted comments about the importance of accountability of management in respect of not-for-profit entities, and considered whether to make specific reference to the accountability (or stewardship) of management for the resources entrusted to it, similar to statements made in superseded paragraph 14 of the *Framework* and in Statement of Accounting Concepts SAC 2 *Objective of General Purpose Financial Reporting* (e.g. paragraphs 14, 27 and 44). The Board noted the IASB's acknowledgement of the role of stewardship and its rationale for not using the term 'stewardship' within Chapter 1. Paragraphs BC1.27 and BC1.28 of the IASB's Basis for Conclusions on Chapter 1 of the IASB Conceptual Framework (September 2010) state:

BC1.27 ... The Board did not intend to imply that assessing prospects for future cash flow or assessing the quality of management's stewardship is more important than the other. Both are important for making decisions about providing resources to an entity, and information about stewardship is also important for resource providers who have the ability to vote on, or otherwise influence, management's actions.

BC1.28 The Board decided not to use the term stewardship in the chapter because there would be difficulties in translating it into other languages. Instead, the Board described what stewardship encapsulates. Accordingly, the objective of financial reporting acknowledges that users make resource allocation decisions as well as decisions as to whether management has made efficient and effective use of the resources provided.

BC12 The Board noted that while the provision of information for accountability purposes is an important function of general purpose financial reporting, including in relation to not-for-profit entities, the rendering of accountability by reporting entities through general purpose financial reporting can be regarded as encompassed by the broader objective of providing information useful for making decisions about the allocation of resources. This is on the basis that users ultimately require accountability-related information for resource allocation decisions. Accordingly, in response to constituent feedback on AASB ED 164 in relation to accountability (see paragraph BC8), the Board concluded that the additional guidance it has included in respect of not-for-profit entities is consistent with the view that management accountability is encompassed within the objective of general purpose financial reporting of not-for-profit entities as described in the Framework.

- 15 Accordingly, staff do not recommend explicitly referring to accountability in the objective of SPR.

**Question 3 for the Board**

Does the Board agree with the staff recommendation in paragraph 15 that an objective of SPR should not explicitly refer to accountability?

**Meaningful**

- 16 Staff note that the NZASB principle for SPR states that information needs to be ‘meaningful’; however, the NZASB ED does not provide a definition or explanation of the term.
- 17 Staff are of the view that the term ‘meaningful’ is a very subjective term that could be interpreted differently by different users. Accordingly, staff do not think that ‘meaningful’ should be an explicit characteristic articulated in the objective of SPR. Staff consider that the underlying principle for information is that contained in the *Framework* in that it is useful for decision making.

**Question 4 for the Board**

Does the Board agree with the staff recommendation in paragraph 17 that an objective of SPR should not include the term ‘meaningful’?

**Goods/Services and Service Delivery Activities**

- 18 As stated in paragraph OB1 of the *Framework*, users of for-profit general purpose financial reporting focus on financial information to make decisions about providing resources to an entity. Many of these users are concerned with obtaining a financial return for their investment. However, as noted in *Framework* paragraph AusOB3.1, in respect of not-for-profit entities, users are generally not concerned with obtaining a financial return on an investment in the entity. Rather, they are concerned with the ability of the entity to achieve its objectives (whether financial or non-financial). Paragraph AusOB3.1 clarifies that for not-for-profit entities ‘assessing prospects for future net cash inflows’ (and related terms) should be read in the context of the

common information needs of users of general purpose financial reports of not-for-profit entities.

- 19 Accordingly, consistent with *Framework* paragraph AusOB3.1, staff consider that providing information on the goods or services an entity has produced and why the entity has produced those goods and services this is a crucial aspect of SPR that should be included in an objective of SPR.

**Question 5 for the Board**

Does the Board agree with the staff recommendation in paragraph 19 that an objective of SPR should refer to delivery of goods and/or services?

***Financial information***

- 20 Although financial information is not the main focus of SPR it is important to determine how efficiently and effectively an entity has used its financial resources to achieve its objectives. However, financial resources are not the only resources available for NFP entities. For example, a major resource available to many NFP entities is volunteer time.
- 21 Accordingly, for the purposes of defining the objective of SPR staff recommend that a reference to ‘resources’ rather than ‘financial information’ should be included in the objective.

**Question 6 for the Board**

Does the Board agree with the staff recommendation in paragraph 21 that an objective of SPR should refer to ‘resources’?

***Staff recommendation***

- 22 Considering the analysis above, staff propose that an objective of service performance reporting could be articulated as follows:

*The objective of service performance reporting is to provide users with useful information regarding an entity’s service performance objectives and its achievement of those objectives, including the use of resources used to achieve those objectives that will allow a user to assess the efficiency and effectiveness of an entity’s service delivery.*

**Question 7 for the Board**

Does the Board agree with the staff’s proposal for the objective of service performance reporting?