

Service Performance Reporting – Overview of Board Decisions up to September 2014

AASB Staff Issues Paper

Introduction

- 1 The purpose of this paper is to provide the Board with an overview of decisions made by the Board, up to September 2014, in respect of the Service Performance Project.

Overview of the Service Performance Reporting Project

- 2 Following are modified extracts from the minutes from AASB meetings each time the Service Performance Reporting (SPR) project was discussed,

July 2009

- 3 This project commenced in July 2009 the Board decided to initiate an active project ‘Disclosures by Private Sector Not-for-Profit Entities’. Initially the project was to focus on disclosures Australian Accounting Standards (AASs) did not require of private sector not-for-profit (NFP) entities, that should be required when having regard to information needs of users of general purpose financial statements (GPFs).
- 4 Consideration was to be given to the work being undertaken at the time by the New Zealand Financial Reporting Standards Board (FRSB) and the International Public Sector Accounting Standards Board (IPSASB) as well as the International Accounting Standards Boards (IASBs) work on Management Commentary.
- 5 The Board expressed a desire not to increase the disclosure burden of NFP entities and decided the project should also consider whether there are any existing disclosure requirements in AASs for which information provided to users might not be justifiable from a cost/benefit perspective.

September 2009

- 6 At the September 2009 meeting the Board tentatively decided that:
 - (a) it has an interest in the form and content of SPRs, irrespective of whether service performance information falls within the scope of GPFs. In that regard, the Board would be reluctant to take on a project that would not include a mandatory element falling within GPFs. The Board:
 - (i) adopted a working assumption that it will develop at least some mandatory requirements, expected to be in the nature of high-level principles, whilst acknowledging the challenges it might face in developing such principles. One principle to be considered is a ‘through the eyes of management’ approach (whereby the performance indicators reports are those used by the entity’s management to monitor the entity’s performance) as a means of identifying appropriate indicators of an entity’s service efficiency, effectiveness and quality. The Board noted this approach might be effective because it would not require the Board to be a subject matter expert on non-financial matters;

- (ii) decided that the focus should be on providing information that can be used by users as input to their analysis, rather than providing an analysis. However, this should not preclude analysed information that an entity's management might regard as pertinent to reporting service performance from being included in a service performance report; and
 - (iii) considered there might be merit in developing an illustrative example of the form and content of a service performance report once the Board has clarified its views on service performance reporting;
- (b) service performance information might comprise both financial and non-financial information of a quantitative or qualitative nature, including disaggregated/program financial information, which is pertinent to the entity's principal objective and assessment of service performance. What constitutes non-financial information within a general purpose financial statements framework is to be considered;
- (c) it is premature for it to conclude whether users of general purpose financial statements of NFP entities need financial information that differs from the financial information needed by users of for-profit entities, but tentatively decided that a reasonable working hypothesis is NFP user disclosures needs may extend beyond for-profit user needs. The Board noted that the presentation of the conventional financial statements is outside the scope of this part of the project;
- (d) in noting the concern of some that a significant amount of service performance information is too subjective/qualitative to go into GPFSSs, consideration on whether service performance information falls within or outside the GPFSSs should be revisited when the project has been developed further. The Board noted that the audit implications might influence the view of some if service performance information were to be included in GPFSSs. The Board also noted that if service performance information were to be subject to audit, that might add rigour to the quality of the information provided;
- (e) consideration should be given to identifying a constraining principle for the information the AASB might decide should be included in service performance reports. The Board directed staff to develop a draft paper on this issue for discussion at a future Board meeting. The paper should include consideration of at least the following possible constraints:
 - (i) information that explains amounts recognised in the financial statements; and
 - (ii) information that is directly related to the principal, no-for-profit, objective of the entity;
- (f) staff should include in their ongoing research examples in practice of good service performance reporting by NFP and for-profit entities in the private and public sectors; and

- (g) consideration should be given to the implications for service performance reporting if an entity has a multi-year plan or vision.
- 7 The Board also considered the range of entities that might be affected by this project and decided to:
- (a) formally consider the project in the light of its *Process for Modifying IFRSs for PBE/NFP*, before determining whether the project should have implications for for-profit entities. In the meantime, the focus will continue to be on NFP entities; and
 - (b) reconsider whether the project should have implications for public sector entities after it has discussed the project with the FRSB. The AASB noted that the NZ FRSB's project on service performance reporting has a scope of both private and public sector NFP entities. The extent to which the respective projects might be progressed jointly will be discussed at the forthcoming AASB/FRSB meeting in October 2009.

October 2009 (Joint AASB/FRSB meeting)

- 8 The Boards discussed the potential benefits and challenges of working jointly, particularly in light of the different scopes – AASB – NFP private sector entities and NZ FRSB both private and public sector NFP entities. Consideration was given to whether the scope of the AASB project should be broadened to encompass public sector NFP entities. The AASB decided that this would not be appropriate for a number of reasons including:
- (a) the AASB's commitment to specifically consider the needs of users of GPFSs prepared by private sector NFP entities;
 - (b) the impact of a broader scope on the duration of the project, and the AASB's desire to undertake the service performance reporting part of its project within a 12-month timeframe;
 - (c) there would need to be clarification about the role the Board might play relative to the range of organisations with a mandate to establish service performance reporting requirements for public sector NFP entities in Australia; and
 - (d) the differing performance models used in the state jurisdictions.
- 9 The Boards observed that if the focus of the work were on developing general principles, the different scopes should not be an impediment to a joint project. The Boards noted that such an approach would not preclude the AASB from addressing issues which do not fall within the scope of the FRSB project. Those issues might include distinguishing between financial and non-financial information and identifying a constraining principle for the information include in service performance reports.
- 10 The Boards agreed that staff should prepare a joint project plan, including time line, for consideration by the Boards. The plan will consider ways to ensure the project is progressed efficiently and in a timely manner, and will include consideration of how the Boards can work together, including how a joint sub-committee might be utilised.

- 11 For the purposes of progressing the SPR project, the Board decided to:
- (a) continue its work on SPR even though the Conceptual Framework (CF) project had not yet addressed the broader questions of the scope of GPFs and financial reporting. However, the project is to monitor developments in the CF project; and
 - (b) adopt a principle for constraining the type of information that the Board would consider requiring in SPRs as ‘service performance information that relates to an entity’s principal objectives’. The Board decided:
 - (i) that it will not prescribe whether the information to be disclosed is to be constrained based on being financial or non-financial, but the information could be constrained by the non-financial principle objectives and their financial implications; and
 - (ii) at a future meeting, it will consider the implications of that principle for matters such as the measurability and auditability of information that might be included in SPRs, and the suitability of alternative approaches (including through-the-eyes-of- management; whatever is externally reported ex ante; or information based on an entity’s constituting documents) to identify such information.
- 12 The Board noted that the effectiveness of it adopting such a constraining principle compared with other possible constraining principles will become apparent as work proceeds and examples of SPR under such principles are considered. The board also noted that the overall objective of SPR might impact on the effectiveness of the constraining principle. For example, if the objective is for better practice, a wider constraining principle might be warranted compared with an objective of including SPR information in financial statements.
- 13 The Board also considered whether the scope of the project should be broadened to include for-profit entities, in light of its *Process for Modifying IFRSs for PBE/NFP*. The Board observed that the principal objectives of not-for-profit entities and the needs of users in relation to those objectives are potentially different from the principal objectives of for-profit entities and their related users’ needs. Accordingly, the Board decided that the current project should not include for-profit entities within its scope. Consistent with the *Process*, in developing any requirements, regard will be had to the Conceptual Framework, other national standard setters’ work and Australian/New Zealand practice. The Board noted its October 2009 decision to, at this stage, focus on private sector not-for-profit entities, with a view to developing principles that can be considered in due course for the not-for-profit public sector
- 14 The Board then considered a draft FRSB/AASB joint project plan and agreed that work should be undertaken jointly. The Board:
- (a) noted that the implications of its Differential Reporting project would need to be considered for service performance reports;

- (b) decided to consider issues relating to Key Performance Indicators, budgets and future oriented information, explanations of variances, volunteer services and costs, activity based costing and sensitivity analysis under section 7.7 'Principles of service performance reporting' in addition to the principles listed;
- (c) decided that consideration should be given to the extent to which measurement issues need to be addressed as part of this project; and
- (d) decided to form a joint subcommittee that will undertake a substantial amount of the review function and preliminary decision making, with the Boards being kept informed of progress throughout. The joint subcommittee will comprise three members from each Board.

October 2010 (Joint AASB/FRSB meeting)

- 15 The Boards noted an updated project plan, which outlined the research and steps needed to produce an exposure draft in 2011. The Boards reaffirmed the importance and high priority of the project and requested that the project be accelerated if possible.

February 2011

- 16 The Board received an update on the progress being made on its major domestic public sector/NFP projects (including SPR) and noted that in relation to SPR, staff had documented a significant amount of empirical research on current practice. The documented research incorporates comments from the Project Advisory Panel and the AASB/FRSB and the AASB/FRSB Sub-committee. Staff were aiming to distribute further papers for the Project Advisory Panel member's comment. These papers relate to the framework for objective of, users of, users' needs for, and the definition of SPR.

March 2011- (This item was scheduled for discussion at a joint AASB/FRSB meeting but was only discussed by the AASB)

- 17 The Board received an update on the progress being made on its SPR project. In particular, the Board noted the following:
- (a) the project team had prepared working drafts of the following four papers intended to form the basis of any principles the Board might develop for SPR:
 - (i) *Principles of service performance reporting* – a working definition of service performance reporting;
 - (ii) *Applicability of the current AASB and FRSB Conceptual Frameworks to service performance reporting*;
 - (iii) *Principles of service performance reporting – the objective of service performance reports*; and
 - (iv) *The identification of users and user needs in relation to service performance reporting*.

- (b) these papers were sent to Project Advisory Panel and Working Group members, any comments from whom would be considered for inclusion in the next draft of the papers, to be sent to the sub-committee for comment;
- (c) reflecting that the project is not a conceptual-level project, the papers express tentative views of the project team that the principles of SPR can and should be based on the current AASB Conceptual Framework; and
- (d) later stages of the project would consider the issues of how SPR relates to financial reporting and the IFRS Practice Statement *Management Commentary*, and also whether the outcomes of the project should result in voluntary or mandatory pronouncements. The Board commented that the project should also consider the implications of its findings for the scope of general purpose financial reporting, noting that ‘usefulness’ is not an adequate basis for determining whether and what information about service performance should be included within the scope of financial reports.

18 The Board observed that the findings of the project might also be applicable in a for-profit private sector context. However, for now, the project’s focus should remain on private sector NFP entities, with a view to it being considered for the public sector in due course.

October 2011

- 19 The Board considered whether, and if so how, to progress its Service Performance Reporting project, particularly in light of the recent establishment of the Australian Charities and Not-for-profits Commission (ACNC), constituent feedback received on the project work to date and developments in relevant IPSASB and IASB projects.
- 20 The Board decided to continue to progress the project while seeking to work with the ACNC when appropriate, and continuing to monitor IPSASB and IASB developments.
- 21 The project would consider ways in which to address concerns expressed by some constituents about the potential for the costs of implementing any reporting requirements that might arise from the project to exceed the benefits to users of not-for-profit (NFP) private sector reporting entities’ general purpose financial statements.

February 2012

- 22 The Board considered two high-level papers (a positioning paper and a context paper) designed to establish a sound basis for progressing the project to its next stage – the identification of possible principles for service performance reporting.
- 23 The Board noted that the Positioning Paper explores the broad notion of performance and its relationship to performance information and service performance information within general purpose financial reporting (and therefore within the scope of the Conceptual Framework). The Board also noted in relation to the Positioning Paper, the difficulties in clearly distinguishing between performance information and performance information within general purpose financial reporting and acknowledging that users want holistic information. 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); and
- (b) a parameter for particularly constraining information about service performance 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.

24 The Board noted that the Context Paper addresses fundamental issues pertinent to progressing the project. In relation to that paper, the Board decided to proceed on the basis that:

- (a) the scope of the project should remain limited to private sector NFP entities at this stage, to keep the project reasonably manageable;
- (b) the current AASB Conceptual Framework is suitable for private sector NFP entities and should be used as a basis for developing principles of service performance reporting, having regard to the IASB Conceptual Framework and the emerging IPSASB Conceptual Framework. Although the current AASB Conceptual Framework has an economic focus, the term ‘economic’ has a broad meaning that extends beyond the notion of profit as it also encompasses notions of scarce resources and inflows and consumptions of scarce resources. Furthermore, consistent with the objective of financial statements within the AASB Conceptual Framework, and to address concerns expressed by some about the relationship between decision making and accountability, the Board decided that economic decision making should be described as including accountability;
- (c) it is not the role of this project to distinguish financial and non-financial information – rather the principles should be developed with a focus on providing information that meets the common information needs of users;
- (d) not to wait for the IPSASB to progress its project on Reporting Service Performance Information. However, the Board requested the project team to continue to review IPSASB papers on the topic as they become available, and when appropriate continue to consider them when developing its thoughts and ideas;
- (e) the findings from the project team’s research should be used as one of the benchmarks for the possible principles of service performance reporting that are being developed rather than aiming to codify current practice;
- (f) the project team should undertake further analyses in future principles papers to determine:

- (i) whether service performance reporting should encompass reporting information on resources, inputs, outputs and outcomes (some Board members particularly noted that despite acknowledging that users might be interested in information about outcomes, such information might be beyond the scope of the type of information about which the Board is intending to develop principles);
 - (ii) the relationship between service performance reporting and the financial statements and how this project will link to management commentary; and
 - (iii) the nature of the guidance and the types of entities that might be required to comply with the principles and whether a ‘through-the-eyes-of-management’ approach may be appropriate (this should include consideration of the rationale for such an approach in the context of AASB 8 *Operating Segments* and whether that same rationale is relevant in the context of Service Performance Reporting); and
- (g) there is a presumption that the Board’s role is to develop service performance reporting principles – and a challenge is to determine the scope of those principles.

25 The Board decided to invite the Australian Charities and Not-for-profits Commission (ACNC) to nominate a member for the Board’s Service Performance Reporting project Sub-committee.

April 2012

26 The Board considered the two staff papers, noting that they were designed to form a basis for developing principles for service performance reporting. The first paper addresses issues relating to a robust articulation of service performance reporting, such as whether that articulation should be in the form of a definition or a description. The second paper addresses users of service performance information and the purposes for which users require that information.

27 In relation to the first paper, the Board decided to initially describe service performance reporting as incorporating the following aspects:

- (a) the objectives of an entity;
- (b) obtaining and using resources;
- (c) providing outputs;
- (d) achieving outcomes; and
- (e) an entity’s ability to continue to provide intended goods and services (i.e. sustainability).

28 As the project progresses, the description could develop further and form the basis for a robust definition.

- 29 In relation to the second paper, the Board decided:
- (a) the users of service performance information are the same users as those outlined in the AASB Conceptual Framework, which could be articulated using more inclusive terminology. For example, ‘investors’ could be described as ‘resource providers’; and
 - (b) the purposes for which users require service performance information are:
 - (i) to determine 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) to determine whether to commence or continue providing resources;
 - (iii) to determine the amount of resources to contribute to support the entity’s objectives; and
 - (iv) to determine whether the entity will be able to continue to provide intended goods and services in future periods.

April 2014

- 30 The Board noted the progress being made on its SPR project and considered whether IPSASB ED 54 *Reporting Service Performance Information* would provide a suitable basis for accelerating the project. The Board also noted that the New Zealand Accounting Standards Board (NZASB) is developing a standard on SPR. The Board decided that IPSASB ED 54, in combination with the AASB’s staff research to date and the NZASB’s work, would provide a sound basis for reorienting its work from ‘green fields’ research to developing an AASB ED of a proposed Standard. However, the Board decided that its own work should not be tied to the IPSASB processes. The Board also decided that the project should include within its scope both public sector and private sector NFP entities.

September 2014

- 31 The Board discussed a comparison of SPR projects of the AASB, NZASB and the IPSASB. The Board noted that without a clear objective of what SPR is attempting to achieve, it was uncertain what aspects of other projects should be included.
- 32 The Board also discussed the scope of the AASB’s project, including the potential to adopt a ‘phased’ approach – with private sector NFP entities in an initial phase and public sector entities addressed in a future phase.
- 33 The Board directed staff to prepare a paper articulating the objective of SPR, a summary of previous decisions made by the Board and a high-level project plan for a phased approach for the project.