

Service Performance Reporting – Principles for the reporting of service performance information

AASB Staff Issues Paper

Introduction

- 1 The objective of this paper is to develop principles for reporting service performance information. As previously tentatively decided by the AASB, these principles will have regard to the principles articulated in both the New Zealand Accounting Standards Board (NZASB) and International Public Sector Accounting Standards Board (IPSASB) projects as well as revisiting the AASB research already conducted in relation to the issue.

Background¹

IPSASB

- 2 IPSASB ED 54 *Reporting Service Performance Information* provides ‘Principles for Reporting Service Performance Information’ at paragraphs 31-39. Paragraph 31 states the key principle as:

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 of the entity’s service delivery.*
- 3 IPSASB ED 54 Paragraph BC25 suggests that the IPSASB determined that the key principles for service performance information should be based on users’ needs for information and should also have reference to the IPSASB’s *Conceptual Framework* (CF).
 - 4 IPSASB ED 54 Paragraphs 33-34 relate how the qualitative characteristics (relevance, faithful representation, understandability, timeliness, comparability and verifiability) should be used when reporting service performance information.
 - 5 A full extract of these paragraphs is provided as Appendix A to this paper.

NZASB

- 6 At the July 2014 NZASB meeting, NZASB staff presented an extract from a draft exposure draft on *Service Performance Reporting*. At this time the scope of the draft ED was limited to public sector public benefit entities (PBEs); however, at its July

1 Note that the extracts from the IPSASB and NZASB provided above are the same as in [Agenda Paper 17.2](#) presented at the October 2014 AASB meeting. This is because it appears that the objective and principles for Service Performance Reporting (SPR) have been incorporated into one statement.

2014 meeting the NZASB decided to expand the scope of the draft ED to include all PBEs (i.e. both public sector and not-for-profit entities). Paragraph 2 of the extract of the draft ED as presented in July 2014 states the ‘Core Principle’ as:

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 supplied, and so enable an entity to discharge its accountability.

AASB Research

- 7 The AASB research, conducted prior to 2013, took a different approach for developing a principle for reporting service performance information and proposed a separate principle for several different aspects of SPR.
- 8 As noted in [Agenda Paper 13.3](#), presented at the September 2014 AASB meeting, in December 2012 a suite of seven papers were sent to the SPR Project Advisory Panel (PAP) for comment².
- 9 The proposed principles are as follows³:

Paper	Aspect of SPR	Proposed Principle
B	Obtaining Resources	An entity shall report information that enables users to evaluate the performance of the entity in obtaining resources.
C	Inputs	An entity shall report information that enables users to evaluate the performance of the entity in relation to inputs.
D	Outputs	An entity shall report information that enables users to evaluate the performance of the entity in providing outputs.
E	Outcomes	An entity shall report information that enables users to evaluate the performance of the entity in respect of its outcomes.
F	Reporting Objectives (2 principles)	<ol style="list-style-type: none"> (1) An entity shall report information that enables users to understand its objectives. (2) An entity shall report information that enables users to evaluate its performance against its objectives.

- 2 Note that Paper A *The relevance of an entity’s objectives* did not attempt to develop a principle but within each of these remaining papers, a principle for reporting a particular aspect of service performance information was proposed.
- 3 Note that within the suite of papers there were numerous questions regarding different aspects of each paper but for the purposes of this paper AASB staff are only focussing on the question that followed each proposed principle, whereby PAP members were asked whether they agreed the suggested principle and if not why not.

- 10 AASB staff received responses from eight PAP members overall but on questions regarding the proposed principles AASB staff received comments from six PAP members, however not all respondents provided answers to all the questions. A table of responses is provided as Appendix B.
- 11 As Appendix B illustrates, there was a wide variety of views regarding the proposed principles; ranging from complete agreement with the proposals to those questioning the validity of principle-based standard setting.

Staff recommendation

- 12 Whilst acknowledging the work that has been previously undertaken by staff and the PAP, staff are of the view that the proposed principles should not be considered further by the Board on the basis that since the principles were 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 principles proposed in the existing work from NZASB and IPSASB should be taken into consideration in developing the objective for the service performance reporting project.
- 13 Accordingly, staff recommend that, rather than proceeding to reconsider the draft principles outlined in paragraph 9 above, the principles of service performance reporting be considered by the Board with reference to the NZASB and IPSASB projects.
- 14 Further, considering the analysis above, consistent with the NZASB and IPSASB approach, staff propose that the principle of service performance reporting be incorporated into a single statement with the objective of service performance reporting. Consistent with the Board's decision in October 2014 in relation to the objective of service performance reporting, staff recommend finalising the wording of the principle of service performance reporting later in the project.

Question 1 for the Board

Does the Board agree with the staff recommendation in paragraph 13 above that the principle of service performance reporting be considered by the Board with reference to the NZASB and IPSASB projects?

Question 2 for the Board

- (a) Does the Board agree with the staff recommendation in paragraph 14 above to incorporate the principle of service performance reporting into a single statement with the objective?
- (b) Does the Board agree to finalise the wording of the principle of service performance reporting later in the project?

Principles for Reporting Service Performance Information

31. 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 of the entity's service delivery.
32. The presentation of service performance information should be appropriate to the entity's service performance objectives. It should make the relationship between the entity's service performance objectives and its service performance achievements clear. Service performance objectives and other information presented should take account of the entity's specific circumstances, such as (a) the services that the entity provides, (b) the entity's nature, and (c) the regulatory environment in which the entity operates. Presentation should support inter-period comparisons and, to the extent that such comparisons are meaningful for the service performance information reported, inter-entity comparisons.
33. The presentation of service performance information should meet the qualitative characteristics of financial reporting, which are relevance, faithful representation, understandability, timeliness, comparability, and verifiability.
34. The following considerations are important when considering application of the qualitative characteristics 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.
35. The pervasive constraints on information in general purpose financial reports—materiality, cost-benefit, and balance between the qualitative characteristics—should also be applied to service performance information.
36. Materiality is a key issue to consider when selecting service performance information for presentation. Information is material if its omission or misstatement could influence the discharge of accountability by the entity, or the decisions that users make on the basis of the entity's reported service performance information prepared for that reporting period. Materiality depends on both the nature and amount of the item judged in the particular circumstances of each entity. When applying materiality to service performance information it is not possible to specify a uniform quantitative threshold at which a particular type of information becomes material. This is because service performance information involves qualitative and quantitative information about service delivery achievements during the reporting period and is likely to influence expectations about service delivery and financial outcomes in the future.

37. The benefits of reporting service performance information should justify the costs imposed by such reporting. The preparation and reporting of service performance information is expected to benefit both users of the information and the entity, as a result of better decision making by management. Costs likely to be incurred by the entity include the costs of collecting and processing the information, the costs of verifying it and/or presenting the assumptions and methodologies that support it, and the costs of disseminating it. When considering costs, preparers also need to consider the costs that users incur in terms of (a) analysis and interpretation, (b) costs imposed by omission of useful information, including the costs that users incur to obtain needed information from other sources and the costs that result from making decisions using incomplete data. Assessing whether the benefits of providing information justify the related costs is often a matter of judgment. Service recipients and resource providers ultimately bear the cost of those efforts—because resources are redirected from service delivery activities.
38. Where the entity's service performance objectives change, the information presented should reflect the change. For example, an entity may initially have service performance objectives related to increasing either the inputs or outputs related to its services, and then later re-focus its performance towards improving either the services' efficiency or effectiveness. That change should be reflected in the service performance information that the entity presents.
39. A jurisdiction may have established service performance reporting requirements applicable to the entity, which extend beyond the minimum information levels outlined in this RPG. In that case the entity is encouraged to ensure that information identified through application of both this guideline and through jurisdiction requirements is presented.

Responses to questions regarding the proposed principle for reporting service performance information

	Respondent 1	Respondent 2	Respondent 3	Respondent 4	Respondent 5	Respondent 6
<i>Obtaining Resources</i>						
Do you agree with the proposed principle for reporting information about obtaining resources? If not, why not?	Not answered	Agree	Not answered	I totally disagree with the way you have built your concept of principle based reporting as it [is] vague ambiguous and purely becomes a subjective test for the Board and then the Auditors will tell them that they must do it depending on their views. This will no doubt increase Audit fees. And you have not established or illustrated any benefit for users.	The first sentence “ <i>An entity shall report information that enables users to evaluate the performance of the entity in obtaining resources</i> ” is negatively framed, in particular with the use of performance. Is this trying to assess an entity’s ability to obtain resources in the past or in the next financial year? It could imply that a potential resource provider would make a decision about whether or not to provide resources based on how good an entity it able to obtain resources, whereas what may be more useful for users is how the resources are applied to achieve outcomes. Alternatively, what may be useful to users is that if \$X amount of resources were	Yes

	Respondent 1	Respondent 2	Respondent 3	Respondent 4	Respondent 5	Respondent 6
					<p>achieved the following outcomes could be achieved by the entity.</p> <p>It would be difficult for a user to evaluate performance by looking at resources in isolation. That is, resources are just one part of assessing performance and needs to be combined with information about objectives, resources, outputs and outcomes. Therefore, this could be reworded to something like “<i>An entity shall report information in relation to resources inputs that assists users to evaluate the performance of the entity</i>”.</p> <p>“<i>Report resource providers in categories based on the nature of the resource providers and significance to the entity</i>” – this should/could be linked to the activities/programs of</p>	

	Respondent 1	Respondent 2	Respondent 3	Respondent 4	Respondent 5	Respondent 6
					<p>the entity.</p> <p>Suggest reword “<i>in relation to the quantity of resources, quantify the resources based on how it quantifies those resources for internal management purposes</i>” as is somewhat confusing to something like “<i>an entity should quantify its resources based on the same means used for internal management purposes</i>”.</p>	
Inputs						
Do you agree with the suggested principle for reporting information about using resources as inputs?	Not answered	I agree	<p>Disagree – This is a whole new accounting issue, let alone a non-financial issue. Except for government grant accounting, and even then to a limited extent then, outflows are not treated as assets unless physical assets or receivables are created.</p>	<p>This principle based approach is vague, lacking in clarity and simplicity. The size of each charity would dictate their ability to be able to comply with this rule. Yet nowhere have you described the benefits of this proposal.</p>	<p>It would be difficult for a user to evaluate performance by looking at inputs in isolation. That is, inputs are just one part of assessing performance and needs to be combined with information about objectives, resources, outputs and outcomes. Therefore, this could be reworded to something like <i>An entity shall report information in</i></p>	Yes

	Respondent 1	Respondent 2	Respondent 3	Respondent 4	Respondent 5	Respondent 6
					<p><i>relation to inputs that assists users to evaluate the performance of the entity.</i></p> <p><i>It is not clear how an entity will report on inputs by both function and nature. For example AASB 101 states: "An entity shall present an analysis of expenses recognised in profit or loss using a classification based on either their nature or their function within the entity, whichever provides information that is reliable and more relevant." Does this mean that an input has to be categories by function, for example 'fundraising' and by nature, for example salary and wages? That is, are the same inputs being reported or disclosed twice?</i></p> <p><i>Suggest reword "in relation to the quantity of inputs, quantify the inputs</i></p>	

	Respondent 1	Respondent 2	Respondent 3	Respondent 4	Respondent 5	Respondent 6
					<i>based on how it quantifies those inputs for internal management purposes” as is somewhat confusing to something like “an entity should quantify its inputs bases on the same means used for internal management purposes”.</i>	
Outputs						
Do you agree with the suggested principle for reporting information about the outputs?	Not answered	I agree, subject to accountability of judgements on information detail made by entities being subject to audit.	No answered	No, because it does not add any value to a charity but can merely add confusion and cost. I note you seem to have a problem with the definition of users. Do you really believe a “homeless” person will sit down and read this report? Donors may but many donors have a direct knowledge of the charity they support and would be able to seek this information.	It would be difficult for a user to evaluate performance by looking at outputs in isolation. This could be reworded to something like <i>“An entity shall report information in relation to outputs that assists users to evaluate the performance of the entity”</i> Suggest reword “ <i>in relation to the quantity of outputs, quantify the outputs based on how it quantifies those outputs for internal management purposes”</i> as is	Yes

	Respondent 1	Respondent 2	Respondent 3	Respondent 4	Respondent 5	Respondent 6
					<p>somewhat confusing to something like “<i>an entity should quantify its outputs based on the same means used for internal management purposes</i>” Refer to discussion in D4 (b) above.</p> <p>Further assistance and guidance should be provided in respect of disclosure/presentation.</p>	
Outcomes						
Do you agree with the principle for reporting information about the outcomes achieved by an entity?	Not answered	Yes	Paragraph 33(a) refers to the reporting of available information and requires management to not ignore available information about outcomes. There is no body to determine what is “reasonable” so this is unworkable.	As I have got as far at this it is becoming increasingly clear that your whole approach is conceptually wrong. You should start with a clear statement and then explain why you support the proposition.	It would be difficult for a user to evaluate performance by looking at outcomes in isolation. This could be reworded to something like “ <i>an entity shall report information in relation to outcomes that assist users to evaluate the performance of the entity</i> ”.	Yes
Reporting Objectives						
(a) Do you agree with the suggested principle for expressing an entity’s	Yes – judgement should be substantiated	I agree. Accountability	Not answered	Your principle is vague, imprecise and not even simple and clear in its meaning	Agree with the prospective and retrospective elements of the principle which	Yes

	Respondent 1	Respondent 2	Respondent 3	Respondent 4	Respondent 5	Respondent 6
objectives?				and will merely end up with a lot of subjective judgements which can then be questioned.	enables a user to determine if an entity has been successful in the past in meeting its objectives and then this could be compared to what the entity intends to do in the future. A comparison could be made in respect of the inputs and outputs provided and outcomes achieved to go towards meeting objectives with proposed inputs/output/outcomes to meet expected objectives.	
(b) Do you agree with the suggested principle for reporting an entity's performance against its objectives?	No, report on current objectives.	I agree. With any variance in performance against a target, explanation of the variance should be provided by the entity.	Not answered	Again your principle is vague and imprecise and not even simple and clear in its meaning and will merely end up with a lot of subjective judgements which can then be questioned.	Agree – as above	Yes