

AASB Exposure Draft

ED 2XX
XX July 2015

Reporting Service Performance Information

Comments to the AASB by 30 November 2015



Australian Government

**Australian Accounting
Standards Board**

Commenting on this AASB Exposure Draft

Comments on this Exposure Draft are requested by 30 November 2015.
Comments should be addressed to:

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All submissions on possible, proposed or existing financial reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chair of the AASB agrees to submissions being treated as confidential. The latter will occur only if the public interest warrants such treatment.

While comments may be lodged by email or by post, email lodgement is preferred. To enable the submissions to be accessible to all users of the website, including those with disabilities, please submit comments via email in an accessible Word format. An additional accessible and unsecured PDF version may also be submitted.

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[Draft] Australian Accounting Standard AASB 10XY *Reporting Service Performance Information* is set out in paragraphs 1 – 73 and Appendices A – C. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. AASB 10XY is to be read in the context of other Australian Accounting Standards, including AASB 1048 *Interpretation of Standards*, which identifies the Australian Accounting Interpretations. In the absence of explicit guidance, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies.

PREFACE

Introduction

Australian Accounting Standards

The Australian Accounting Standards Board (AASB) makes Australian Accounting Standards, including Interpretations, to be applied by:

- (a) entities required by the *Corporations Act 2001* to prepare financial reports;
- (b) governments in preparing financial statements for the whole of government and the General Government Sector (GGS); and
- (c) entities in the private or public for-profit or not-for-profit sectors that are reporting entities or that prepare general purpose financial statements.

AASB 1053 *Application of Tiers of Australian Accounting Standards* establishes a differential reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements:

- (a) Tier 1: Australian Accounting Standards; and
- (b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 1 requirements incorporate International Financial Reporting Standards (IFRSs), including Interpretations, issued by the International Accounting Standards Board (IASB), with the addition of paragraphs on the applicability of each Standard in the Australian environment.

Publicly accountable for-profit private sector entities are required to adopt Tier 1 requirements, and therefore are required to comply with IFRSs. Furthermore, other for-profit private sector entities complying with Tier 1 requirements will simultaneously comply with IFRSs. Some other entities complying with Tier 1 requirements will also simultaneously comply with IFRSs.

Tier 2 requirements comprise the recognition and measurement requirements of Tier 1 but substantially reduced disclosure requirements in comparison with Tier 1.

Australian Accounting Standards also include requirements that are specific to Australian entities. These requirements may be located in Australian

Accounting Standards that incorporate IFRSs or in other Australian Accounting Standards. In most instances, these requirements are either restricted to the not-for-profit or public sectors or include additional disclosures that address domestic, regulatory or other issues. These requirements do not prevent publicly accountable for-profit private sector entities from complying with IFRSs. In developing requirements for public sector entities, the AASB considers the requirements of International Public Sector Accounting Standards (IPSASs), as issued by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants.

Exposure Drafts

The publication of an Exposure Draft is part of the due process that the AASB follows before making a new Australian Accounting Standard or amending an existing one. Exposure Drafts are designed to seek public comment on the AASB's proposals for new Australian Accounting Standards or amendments to existing Standards.

Reasons for Issuing this Exposure Draft

The AASB originally initiated a project on Reporting Service Performance Information as part of its response to concerns expressed by constituents that the disclosures required for private sector not-for-profit entities by existing Australian Accounting Standards are not sufficiently targeted to the needs of users.

This project was initially funded with approved funding from The Minister for Superannuation and Corporate Law for "The AASB developing an exposure draft for disclosures by private not-for-profit entities" (Treasury Executive Minute No. 09/0803 dated 2 April 2009).

There is currently no Australian Accounting Standard that requires service performance information to be reported.

The AASB's project was responding to concerns expressed that even if existing disclosure requirements in Australian Accounting Standards provide useful information for users, there was a risk that other information specific to private not-for-profit entities and needed by users was not being disclosed or was not being disclosed in a consistent way. Many existing disclosures focussed on financial aspects, whereas non-financial aspects of private not-for-profit entities are often important to users.

These concerns have also been reflected in various other reports, for example:

- (a) The Senate Standing Committee on Economic Report [Disclosure regimes for charities and not-for-profit organisations](#) (2008) stated as Recommendation 13;

The committee recommends that a new disclosure regime contain elements of narrative and numeric reporting as well as financial, in acknowledgment that the stakeholders of the Sector want different information to that of shareholders in the Business Sector. The financial reporting should be transparent and facilitate comparison across charities.

- (b) The Institute of Chartered Accountants Australia's 2009 edition of [Enhancing Not-for-Profit Annual and Financial Reporting](#) provides recommendations for enhancing NFP annual reporting three of which are specifically relevant to this ED are:

- **Objectives** - Provide more information about what the NFP is trying to achieve, how it operates, explanations of activities to achieve those objectives, and how those activities are funded;
- **Risk Management** - Ideally readers of the annual report should be provided with sufficient information to understand the risks faced by the NFP and the ongoing management of those risks. This could be achieved by providing a summary of policies on risk oversight and management of material risks in the governance statement.
- **Outputs, outcomes and impacts** - NFPs enhance the effectiveness of their annual reports by portraying what the NFP has done (its outputs), what it has achieved (its outcomes), and what difference it has made (its impacts).

These reports identify that the needs of users of NFP entity reporting are not the same as for for-profit entity reporting because of the differing objectives between the two sectors.

The primary objective of a for-profit entity is to obtain a return on investment for investors. Therefore, to evaluate the entity's achievement of this objective, profit is frequently used as a measure of performance or as the basis for other measures, such as return on investment or earnings per share. Generally this information can be gained from the financial statements.

However, in the not-for-profit sector, an entity's primary objective is not the generation of profit but rather the provision of goods and/or services for the community or social benefit. Therefore, to enable users to assess whether a NFP entity has met its objectives it is necessary for such entities to report on its service performance in addition to its financial statements.

Providing information on service performance allows NFP entities to tell a story to their users of how well its objectives have been achieved and thus providing useful information for accountability and decision-making purposes.

Some benefits that are expected to flow from this project are:

- (a) users of private NFP entities' financial reports would be provided with more relevant and understandable information about the financial and non-financial aspects NFP entities;
- (b) there would be greater consistency of reporting by private NFP entities; and
- (c) private NFP entities could better satisfy their accountability obligations.

Main Features of this Exposure Draft

This ED proposes requirements for reporting service performance information by not-for-profit entities in both the private and public sectors. It establishes the principles and requirements for an entity to report service performance information that is useful for accountability and decision-making purposes.

Service performance information relates to the delivery of goods and/or services with the intention of having a positive impact on society or segments of society.

This ED requires service performance information to be reported at least annually in relation to:

- the entity's service performance objectives;
- key outputs, including the inputs used to produce those outputs;
- any outcomes the entity is seeking to influence; and
- the entity's efficiency and effectiveness in achieving its service performance objectives.

Application Date

It is proposed that this Standard be applicable to annual reporting periods beginning on or after 1 July 2017. It is proposed that early adoption of this Standard will be permitted.

Request for Comments

Comments are invited on any of the proposals in this Exposure Draft by 30 November 2015. Submissions play an important role in the decisions that the AASB will make in regard to a Standard. The AASB would prefer that respondents express a clear overall opinion on whether the proposals, as a whole, are supported and that this opinion be supplemented by detailed comments, whether supportive or otherwise, on the major issues. The AASB regards supportive and non-supportive comments as essential to a balanced review of the issues and will consider all submissions, whether they address some or all specific matters, additional issues or only one issue.

Specific Matters for Comment

The AASB would particularly value comments on the following:

- 1 It is proposed that the [draft] Standard will be applicable to not-for-profit entities in both the private and public sector. The performance of these entities cannot typically be obtained from the financial statements alone, accordingly users of NFP entity reporting require further information for accountability and decision-making purposes.

Do you agree that it is appropriate that the [draft] Standard apply to not-for-profit entities in both the private and public sectors? Why or why not?
- 2 The AASB has discussed whether this [draft] Standard could be applied by for-profit entities at a future date. The Board is of the view that users of for-profit reporting may also benefit from for-profit entities providing information related to service performance.

Do you agree that the application of this Standard could be extended in the future to include for-profit entities? Why or why not?
- 3 The AASB discussed whether the requirements of this [draft] Standard should apply to entities that prepare consolidated financial statement including whole-of-government (WoG) and the general government sector (GGS) financial statements. The Board decided that if the [draft] Standard did not apply to entities preparing consolidated financial statements, some important information might not be reported particularly if a controlled entity was not required to apply this [draft] Standard in its own right. Further it was noted that some governments prepare a strategic plan for the WoG (not just individual agencies) therefore this [draft] Standard could be applied in relation to those WoG plans.

Do you agree that this [draft] Standard should apply to NFP entities that prepare consolidated financial statements? Why or why not?

- 4 It is proposed that this [draft] Standard will be applicable for annual reporting periods beginning on or after 1 July 2017. Early application will be permitted.

Do you agree that the application date of 1 July 2017 is appropriate? Why or why not?

- 5 The AASB's view is that this [draft] Standard be mandatory as it provides useful information for users to assess the performance of NFPs in relation to an entity's service performance objective. Providing this information will assist users for accountability and decision-making purposes.

Do you agree that this [draft] Standard should be mandatory for NFP entities? Why or why not?

- 6 This [draft] Standard proposes to allow entities to present its service performance information in either:

- (a) the same report as the financial statements;
- (b) a separately issued report; or
- (c) in a variety of different reports.

Not specifying how service performance information should be presented allows an entity to determine the approach that best suits its users' needs.

Do you agree that this [draft] Standard should not specify the location of service performance information? If so why?

If you disagree with the approach proposed in this [draft] Standard how do you consider entities should present service performance information and why?

General Matters for Comment

The AASB would particularly value comments on the following:

- 7 Whether:
 - (a) there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, including any GAAP/GFS implications?
 - (b) Overall, the proposals would result in reporting that would be useful to users?
 - (c) The proposals are in the best interests of the Australian economy?
- 8 Unless already provided in response to the matters for comment 1-6 above, the costs and benefits of the proposals relative to the current Australian Accounting Standards, whether quantitative (financial or non-financial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

ACCOUNTING STANDARD AASB 10XY

REPORTING SERVICE PERFORMANCE INFORMATION

Objective

- 1 The objective of this [draft] Standard is to establish principles and requirements for an entity to report *service performance information* that is useful for accountability and decision-making purposes.
- 2 The primary objective of a not-for-profit (NFP) entity is to provide goods and/or services for community or social benefit. Therefore, users (e.g. funders – donors and taxpayers) of NFP reporting require information about an entity's ability to achieve its objectives, whether the entity has achieved those objectives and how efficiently and effectively the entity has used its resources to achieve its objectives.
- 3 Because of the primary objective of a NFP entity, the needs of the users extend beyond information traditionally provided in a general purpose financial reports. Accordingly, entities shall also separately report on their *service performance*. Specifically in relation to:
 - (a) the *inputs* used by the entity in delivering outputs;
 - (b) the *outputs* delivered by the entity;
 - (c) the *outcomes* sought to be influenced by that entity;
 - (d) the *efficiency* of an entity in achieving its *service performance objectives*; and
 - (e) the *effectiveness* of the entity in achieving its service performance objectives.
- 4 This [draft] Standard acknowledges that the type of service performance information that is useful for accountability and decision-making will differ between entities. It establishes information requirements in respect of both outputs and outcomes, and provides guidance on the more detailed information that should be provided on service performance objectives and *performance indicators*, depending on an entity's circumstances. This [draft] Standard also provides

Comment [JS1]: Comment to the Board.

It has been suggested by a Board member that this ED could be retitled to performance reporting so that in the future it may be possible to be applied to a broader range of performance objectives e.g. Integrated reporting, environmental reporting, sustainability reporting.

Staff are seeking the Board's views on whether the focus of performance should be broader than service performance.

guidance to assist entities in determining the appropriate balance of information to present.

Application

- 5 **This [draft] Standard applies to:**
- (a) **each not-for-profit entity that is required to prepare financial reports in accordance with Part 2M.3 of the *Corporations Act 2001* and that is a reporting entity;**
 - (b) **each other not-for-profit reporting entity that prepares general purpose financial statements; and**
 - (c) **each other not-for-profit entity that prepares financial statements that are, or are held out to be, general purpose financial statements.**
- 6 **This [draft] Standard applies to annual reporting periods beginning on or after 1 July 2017.**
- 7 **This [draft] Standard may be applied to annual reporting periods beginning before 1 July 2017. When an entity applies this [draft] Standard to such an annual reporting period, it shall disclose that fact.**

Scope

- 8 **An entity shall apply this [draft] Standard in reporting service performance information.**

Reporting Service Performance Information

Reporting Entity

- 9 **The reporting entity for which service performance information is reported shall be the same as that used for the entity's general purpose financial statements.**
- 10 **If the reporting entity is an economic entity comprising a controlling entity and controlled entities, then the service performance information is reporting in respect of that economic entity. If the reporting entity is a single entity then the service performance information is reported in respect of that single entity.**

- 11 When an entity contracts with another entity to deliver goods and/or services on its behalf or produces goods and/or services in conjunction with another entity, the entity needs to identify its own service performance objectives and the activities and results that it should report on.

Reporting Period

- 12 **Service performance information shall be reported at least annually.**
- 13 Service performance information should cover the same reporting period as that covered by the financial statements. However, there may be situations in which the reported service performance information is for a reporting period that is different from the reporting period covered by the financial statements. Decisions about using a different reporting period should be based on a consideration of users' needs and an assessment of costs and benefits.
- 14 Service performance objectives may span a number of reporting periods. When an entity has multi-year service performance objectives it shall report on progress made towards the achievement of those objectives during the period. It may provide additional information on progress made towards the achievement of those objectives in other periods to provide context for the current period's performance.

Location of Service Performance Information

- 15 An entity may present service performance information either;
- (a) in the same report as the financial statements;
 - (b) in a separately issued report; or
 - (c) in a variety of different reports.
- 16 If all the information required by this [draft] Standard is not presented in a single report, an entity shall identify where the information required by this [draft] Standard is located (for example, by way of cross-references).
- 17 An entity should consider the following factors when deciding where and how to present service performance information:
- (a) legislative or other requirements which may specify the location or format of service performance information; and

- (b) whether the needs of users are better met if service performance information is provided in the same report as the financial statements.
- 18 Service performance information includes information that is also in the financial statements, therefore cross-references to the financial statements shall be presented so that users can assess the service performance information with the context of the financial statements.

Principles for Reporting Service Performance Information

- 19 **An entity shall present service performance information that is useful for accountability and decision-making purposes. Presentation of service performance information should enable users to assess the extent, efficiency and effectiveness of the entity's service performance. Information reported shall be appropriate to the entity's service performance objectives and make the relationship between the entity's service performance objectives and its achievement of those service performance objectives clear.**
- 20 Meeting these principles requires the exercise of judgement in the selection of information to be reported and will depend on an entity's particular facts and circumstances, such as:
 - (a) the nature of the entity;
 - (b) the goods and/or services that the entity provides; and
 - (c) the regulatory environment in which the entity operates.
- 21 To be useful for accountability and decision-making purposes, service performance information will include:
 - (a) the entity's service performance objectives;
 - (b) the entity's key outputs, including the inputs used to produce those outputs;
 - (c) the outcomes that the entity is seeking to influence; and
 - (d) the entity's efficiency and effectiveness in achieving its service performance objectives.
- 22 Information reported shall also include both positive and negative aspects of the entity's service performance activities.

Qualitative Characteristics

- 23 **For service performance information to be useful for accountability and decision-making purposes it shall meet the fundamental qualitative characteristics in the *Framework for the Preparation and Presentation of Financial Statements (Framework)* of relevance and faithful representation.**
- 24 Service performance information is relevant if it is capable of making a difference in the decisions made by users. Materiality is one aspect of relevance which is particularly important when reporting service performance information. Information is material if its omission or misstatement could influence the decisions of users. However, so as not to overwhelm users, only information that is necessary to a user's understanding of an entity's service performance objectives and achievements should be reported.
- 25 Service performance information shall also be a faithful representation of the entity's service performance activities and achievements.
- 26 The enhancing qualitative characteristics of understandability, timeliness, comparability and verifiability should also be met when reporting service performance information.
- 27 The cost-benefit pervasive constraint on information and a balance between the qualitative characteristics should also be applied to reporting service performance information.

Elements of Service Performance Information

Service Performance Objectives

- 28 **An entity's service performance objective is a description of what it plans to achieve through its service performance. An entity may have one or more service performance objectives.**
- 29 Service performance objectives may be expressed using performance indicators of inputs, outputs, outcomes, efficiency and effectiveness or through a combination of one or more of these performance indicators. A service performance objective may also be expressed using a narrative description of a desired future state resulting from provision of goods and/or services.
- 30 A single service may contribute to the achievement of one or more service performance objectives. In addition, several goods and/or services may contribute to the same service performance objective.

Performance Indicators

- 31 **Performance indicators are the measures or descriptions used by an entity to communicate its achievement of service performance objectives to users.**
- 32 Inputs, outputs, outcomes, efficiency and effectiveness expressed in terms of an entity's service performance objectives are types of performance indicators
- 33 Performance indicators may be expressed as:
- (a) quantitative measures: for example, the quantity of outputs produced, the cost of goods and/or services, the time taken to provide a service, or a numerical target for an outcome;
 - (b) qualitative measures: for example, descriptors such as poor/good/excellent or satisfactory/unsatisfactory; or
 - (c) qualitative descriptions: for example, a description of the nature of service performance achievement particularly when there is a high level of complexity and judgement involved.

Inputs

- 34 Inputs are the resources used to produce outputs and include (but are not limited to):
- (a) human resources or labour (both paid and voluntary);
 - (b) capital assets such as land, buildings and vehicles;
 - (c) cash and other financial assets; and
 - (d) intangible assets such as intellectual property.
- 35 Inputs can be reported in terms of costs incurred or quantities used to produce outputs.

Outputs

- 36 Outputs are goods and/or services provided by an entity to external recipients and include (but are not limited to):
- (a) services provided directly to individuals and/or institutions, for example, health or education services or the provision of goods such as food or books;

Comment [JS2]: Comment to the Board

As drafted, this ED has an external focus. It has been suggested by a Board member that performance could also have an internal focus to the extent that it has an impact on external performance—e.g. an entity's performance in relation to managing employees – good, happy employees should have a positive effect on the entity's outputs. Note: this is not the approach taken in the IPSASB RGP or in the NZ draft

Staff are seeking the Board's views on whether the focus of performance should be extended to internal performance.

- (b) services provided indirectly to individuals and/or 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/or institutions, for example, cash transfers and the provision of economic incentives such as tax incentives;
 - (d) provision of policies, regulations or legislation to achieve public policy goals, which includes, for example, revenue related legislation and the enforcement of such legislation; and
 - (e) collection of taxes and other revenues.
- 37 The receipt of goods and/or services by recipients external to the entity is a critical factor in deciding whether goods and/or services are outputs, rather than goods and/or services consumed internally as part of an entity's production of outputs.

Outcomes

- 38 **Outcomes are the impacts on society or segments of society, which occur as a result of, or are reasonably attributable to the entity's outputs.**
- 39 **For the purposes of this Standard, an entity is accountable for the achievement of outcomes if:**
- (a) **legislation, contractual or other agreements establish accountability for outcomes; or**
 - (b) **it asserts that it is accountable for the achievement of outcomes.**
- 40 An entity's outcomes could be impacts affecting society as a whole or impacts on particular groups or institutions within society. Outcomes could be relatively direct impacts on recipients of the entity's goods and/or services. They could also be impacts on others that are not recipients of the entity's goods and/or services but who benefit indirectly from those goods and/or services.
- 41 Outcomes may include, for example, changes to educational achievements within society, changes to poverty and crime levels, or changes to the health of different groups within society.

- 42 Although outcomes usually result from an entity's outputs, an entity's operations may also contribute to achievement of its outcomes.
- 43 There may be a strong, direct causal link between an entity's actions and its outcomes, but this will not always be the case. Factors beyond the entity's control may intervene to either hinder or facilitate the entity's achievement of outcomes.

Efficiency

- 44 An efficiency indicator can be used to show when a service is being provided more (or less) efficiently compared to:
- (a) an entity's service performance objectives;
 - (b) comparable service providers; or
 - (c) previous reporting periods.
- 45 Other things being equal, if outputs can be produced with less inputs than before then production efficiency has improved and an efficiency indicator designed to report that type of efficiency gain will show an improvement. Similarly, if the quality of a service improves so that the outcomes achieved are better than those previously attained, with other variables such as service quantity (outputs) and cost holding constant, then this represents an increase in efficiency, and an efficiency indicator designed to capture that type of efficiency gain will show an improvement. The converse – quality decreases so that outcomes are worse, with other variables such as service quantity (outputs) and cost holding constant – would indicate less efficient service provision.

Effectiveness

- 46 Effectiveness describes the relationship between an entity's outputs and/or outcomes and its service performance objectives, where the results and the related service performance objectives are consistently expressed. When reporting on its effectiveness the entity reports the extent to which one or more of its service performance objectives has been achieved. The more effectively an entity operates as a service provider, the better will be its outputs and/or outcomes when measured against its planned results.
- 47 Effectiveness is assessed at the end of the reporting period, once the actual results are available. Precise measurements of effectiveness are usually ratios of the actual results achieved to the planned results established in the service performance objective. An impression of effectiveness can be gained by comparing – without calculation –

actual service performance against the relevant service performance objective.

Selection of Service Performance Objectives and Performance Indicators

Service Performance Objectives

- 48 An entity may have multiple service performance objectives and judgement will need to be exercised when selecting which service performance objectives are to be reported on.
- 49 So as not to overwhelm users, an entity will need to consider which service performance objective(s) will provide users with the most useful information for accountability and decision-making purposes.
- 50 To determine service performance objective(s), entities should consider how the organisation is managed; i.e. is it on a program basis; to help determine the most useful service performance objectives to report on.

Performance Indicators

- 51 In selecting the performance indicators to be reported, an entity applies the principle that service performance information needs to be useful for accountability and decision-making purposes. This includes consideration of the qualitative characteristics and constraints on information. Judgement is needed to determine the most relevant performance indicators to be reported. They should measure aspects of performance that are of particular value or importance for the purposes of accountability and decision-making.
- 52 An entity is likely to use more performance indicators for internal management purposes than would be appropriate for reporting service performance information. Therefore, service performance reporting performance indicators should have an external focus. Outputs are provided by an entity to recipients external to the entity. Therefore, performance indicators should not focus on internal activities or internal processes, plans or policies.
- 53 To ensure that the information is understandable and to avoid overwhelming users, entities generally will need to identify only those few key performance indicators that will best meet users' needs.
- 54 For performance indicators to be relevant they should link directly to one or more of the entity's service performance objectives.

- 55 Performance indicators related to outputs should be controllable by the entity or the entity should have a reasonable level of influence over achieving the performance specified.
- 56 The selection of performance indicators will be dependent on the focus of the service performance information reported. The balance of information reported will vary from entity to entity. For example, in reporting service performance information some entities will be focused more on outputs than outcomes, whilst others will be focused more on outcomes than outputs. The balance of information reported and the performance indicators selected will reflect this.
- 57 The performance indicators presented should allow users to assess how efficiently and effectively the entity has used its resources to deliver goods and/or services and achieve its service performance objectives.
- 58 In order to be meaningful in the context of an entity's service performance information, performance indicators related to outcomes should relate to the entity's purported impact on outcomes.

Service Performance Information to be Reported

- 59 An entity shall report information to enable users of its financial statements to evaluate the efficiency and effectiveness of the delivery of its service performance objectives.
- 60 Judgement is needed to decide what information should be reported so that users:
- (a) understand the basis of the service performance information; and
 - (b) receive a concise overview of the entity's service performance, which highlights the main issues relevant to their assessment of that service performance.

Information to be Reported by All Entities

- 61 An entity's service performance information shall describe:
- (a) an entity's service performance objective(s);
 - (b) an entity's performance indicators relating to:
 - (i) inputs;
 - (ii) outputs;

- (iii) the outcomes that an entity is seeking to influence;
 - (iv) the link between inputs and outputs and/or outcomes (efficiency); and
 - (v) the link between outputs and/or outcomes and service performance objectives (effectiveness);
- (c) the assumptions that underlie the service performance information and the methodologies adopted in compiling the service performance information; and
- (d) risks and the risk management strategies associated with achievement of the entity's service performance objectives.
- 62 In addition to the information required at paragraph 61, an entity that is accountable for the achievement of outcomes shall report additional service performance information on the outcomes it seeks to influence including:
- (a) descriptions of the population or target group for outcomes including the current status of the population or target groups;
 - (b) an explanation of how the entity has influenced outcomes, together with performance indicators to support that explanation;
 - (c) the rationale for the selection of performance indicators; and
 - (d) other factors that have affected the entity's ability to influence outcomes.
- 63 The costs of outputs reported will depend on an entity's accounting policies and its cost allocation policies. An entity looks to its internal financial reporting system as the starting point for identifying those items that can be directly attributed, or reasonably attributed, to the outputs described. Unattributed or unallocated expenses are reported as an unallocated amount in reconciling the output cost information to the total expenses in the statement of financial performance. [Name of Non-exchange revenue standard name and number] permits but does not require, that an entity recognise services in-kind as revenue. If services in-kind provided to an entity have not been recognised as revenue, then the use of those resources in producing outputs will not have been recognised as expenses. If an entity has not recognised services in-kind as revenue and expenses it may nonetheless choose to provide information on those resources.

Comment [JS3]: Comment to the Board

We have included a requirement for entities to report risk management strategies in relation to achieving service performance objectives. This is not a requirement in either the IPSASB's RPG or in the NZ draft.

Staff are seeking the Board's views on requiring this information?

- 64 Entities should also consider using narrative discussion and analysis to accompany the reported service performance information.
- 65 Narrative discussion and analysis complements the reported service performance information by enabling users to gain insight from the entity on:
- (a) aspects of service performance that the entity considers should be highlighted; and
 - (b) factors that affected service performance achievements during the reporting period.
- 66 Narrative discussion and analysis should provide a concise overview of the entity's service performance that:
- (a) discusses the degree to which service performance objectives have been met;
 - (b) provides balanced explanations of the information displayed, which cover both positive and negative aspects of the entity's service performance; and
 - (c) facilitates users' assessments of the efficiency and effectiveness of the entity's service performance.

Disclosures when the service performance reporting period is different to the financial statements

- 67 When the service performance information covers a reporting period that is different from that for the entity's financial statements, the following information shall be disclosed:
- (a) the fact that the reporting period is not the same as that for the financial statements;
 - (b) why there is a difference; and
 - (c) the reporting period(s) of the financial statements from which the information has been derived, along with information to facilitate access to those financial statements.

Disclosures when service performance information is reported separately from the financial statements

- 68 When service performance information is reported separately from the financial statements, the following information should be presented:
- (a) the name of the reporting 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; and
 - (e) the financial statements to which the service performance information relates and sufficient information necessary for users to locate the financial statements.

Reporting against Planned Service Performance

- 69 **Where an entity has published information about its planned service performance the entity shall report its actual service performance against its planned service performance and explain any major variances.**
- 70 The focus of service performance information is on an entity's actual service performance during the period. The meaningfulness of information about actual service performance is enhanced when it includes information on planned service performance for that period. Where planned service performance information is presented, planned and actual service performance information should be reported consistently so that comparisons are facilitated. An entity shall report against its original levels of planned activity. However, information about revisions to plans during the period may help explain variances between original plans and actual results.
- 71 An entity may report actual service performance against previous period's service performance if it provides relevant and useful information.

Transition

- 72 In respect of paragraph 71, if an entity provides comparative information against prior periods, an entity need not present such comparative information in the first year of applying this [draft] Standard.

Commencement of the Legislative Instrument

- 73 For legal purposes, this legislative instrument commences on 30 June 2017.

APPENDIX A

DEFINED TERMS

This appendix is an integral part of AASB 10XY

effectiveness	The relationship between: <ul style="list-style-type: none"> (a) outputs and service performance objectives and/or (b) outcomes and service performance objectives.
efficiency	The relationship between: <ul style="list-style-type: none"> (a) inputs and outputs; and/or (b) inputs and outcomes.
service performance information	Service performance information prepared to meet the needs of external users who are unable to require the preparation of reports to meet their specific information needs.
inputs	Resources used by an entity to provide outputs.
outcomes	The impacts on society or segments of society, which occur as a result of, or are reasonably attributable to the entity's outputs.
outputs	The goods and/or services provided by an entity to recipients external to the entity.
performance indicators	Quantitative measures, qualitative measures, and/or qualitative descriptions of the nature and extent to which an entity is using resources, providing goods and/or services and achieving its service performance objectives.
service performance	The delivery of goods and/or services with the intention of having a positive impact on society or segments of society.
service performance objective	A description of the planned results(s) that an entity is aiming to achieve through its service performance.

APPENDIX B

APPLICATION GUIDANCE

This appendix is an integral part of AASB 10XY.

Objective

- AG1 Reporting service performance information provides information on the entity's service performance objectives, the entity's delivery of goods and/or services in its attempt to fulfil those objectives, and the extent to which the entity was successful in achieving those objectives, including the efficiency and effectiveness of achieving its objectives.
- AG2 In the context of this [draft] Standard, users of service performance information are those stakeholders who cannot typically demand the information from the entity. They include resource providers such as taxpayers or donors and recipients of the goods and/or service provided by not-for-profit (NFP) entities.
- AG3 Service performance information reported is linked to the entity's relevant financial statements to enable users to assess how efficiently and effectively the entity has used its resources in achieving its service performance objectives.

Application

- AG4 This [draft] Standard applies to all NFP entities in both the private and public sectors that prepare general purpose financial statements or are required to prepare financial reports in accordance with Part 2M.3 of the *Corporations Act 2001*. The definition of a NFP entity in Australian Accounting Standards is "an entity whose principal objective is not the generation of profit. A not-for-profit entity can be a single entity or a group of entities comprising the parent entity and each of the entities that it controls." Consequently, the primary objective of an NFP entity is the provision of goods and/or services for the general public, community or social benefit and whilst the generation of profit maybe of some importance (to ensure the entity is ongoing) it is not the primary reason for the entity's existence.
- AG5 The performance of an NFP entity is measured by how well it has achieved its service performance objectives rather than on its generation of profit (or some investment return). Accordingly the financial statements typically do not provide all the relevant information in relation to the performance of an NFP entity.

Therefore, requirements for NFP entities to report on their service performance will allow users to assess an NFP entity's performance.

Scope

- AG6 Entities are required to apply the requirements of this [draft] Standard in reporting service performance information. Some entities may already be subject to legislative or other regulatory requirements to present service performance information. This [draft] Standard does not replace those requirements.

Reporting Service Performance Information

Reporting Entity

- AG7 In reporting service performance information an entity should report against its own service performance objectives. For example, a controlling entity should report against its own service performance objectives rather than those of its controlled entities. Often these service performance objectives will be the same, however, the controlling entity needs to be aware that the mere aggregation of information reported by controlled entities (ie using the same principles used to prepare consolidated financial statements) may not provide relevant information on the controlling entities service performance objectives. To the extent that the controlling entity presents service performance information in respect of its controlled entities, that information should be high-level (ie an overview of the group's service performance) and understandable.
- AG8 This [draft] Standard also requires an entity to report on its own service performance even if it has assigned the delivery of goods and/or services, used to achieve its service performance objectives, to another party. For example, when an entity has agreed to deliver services and then contracts with another entity for delivery of those services, the first entity remains accountable for the delivery of those services and should report accordingly.
- AG9 Further, when an entity produces services with another entity, it needs to consider the most appropriate and meaningful way of reporting on those activities. For example, it may report on its portion of those activities or it may report on the whole activity and explain its contribution to that activity.

Reporting Period

- AG10 This [draft] Standard requires an entity to report its service performance information at least annually. There is no restriction on reporting more frequently but entities should avoid overwhelming users with too much information.
- AG11 Although it is preferable for service performance information to be reported for the same time-period as for the financial statements, this [draft] Standard allows entities to report service performance information on a different time-period to that of the financial statements if this will provide more useful information. For example, an entity may provide its financial statements on a financial year (July-June) basis but conduct its service performance activities on a calendar year (January-December) basis. The entity must decide which reporting period will provide the most useful information to users for decision-making purposes.
- AG12 When an entity reports its service performance information on a different reporting period to its financial statements it shall indicate to users which reporting period(s) the financial information relates to.. For example, if a service performance program runs for the calendar year of 20X1, the relevant financial information would be located in the 20X0/X1 and 20X1/X2 financial statements.
- AG13 Similarly, when an entity has a multi-year service performance objective the entity will need to direct users to the relevant financial statements.

Location of Service Performance Information

- AG14 This [draft] Standard is purposely not prescriptive about the location of reported service performance information because an entity is best placed to determine a location that suits its users' needs.
- AG15 However, there are a number of factors that an entity could consider when deciding on where to locate its service performance information. For example, an entity should consider:
- (a) the extent to which the service performance information needs to be read within the context of information in the financial statements, including information on budget-actual comparisons;
 - (b) whether the needs of users are met 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;

- (c) constraints on information, including whether the benefits of including the information in the same report as the financial statements justify the additional costs (if any) involved; and
- (d) any legislative or other regulatory requirements that specify reporting requirements for service performance information.

Principles for Reporting Service Performance Information

- AG16 Service performance information should enable users to determine how well an entity has achieved its service performance objectives and how efficiently and effectively these service performance objectives have been met.
- AG17 When used in combination with the information in an entity's financial statements, service performance information should enable users to assess the entity's finances in the context of its achievement of service performance objectives and vice versa. Aggregation or disaggregation of service performance information should be at a level that conveys a meaningful understanding of the entity's service performance achievements. The level of aggregation should not be so high as to conceal or obscure performance, while the level of disaggregation should be not be so low as to result in detailed listings that also obscure performance and reduce understandability. Information should be sufficiently specific for users to hold the entity accountable for its service performance, particularly its performance with respect of its service performance objectives.

Qualitative Characteristics

- AG18 The presentation of service performance information should achieve the fundamental qualitative characteristics of relevance and faithful representation as identified in the *Framework for the Preparation and Presentation of Financial Statements* (Framework). The Framework also identifies enhancing qualitative characteristics of understandability, timeliness, comparability and verifiability, which should also be met when reporting service performance information.
- AG19 Relevance is a particularly important consideration in selecting and aggregating service performance information. Relevant information assists users in assessing whether an entity has met its service delivery objectives. In presenting service performance information relevance and understandability should be considered together

because both the amount of information and the level of detail presented can affect understandability.

- AG20 One aspect of relevance which is particularly important when reporting service performance information is materiality. Information is material if its omission or misstatement could influence users' decisions about a specific reporting entity. Therefore, materiality is an entity-specific aspect of relevance that is based on the nature or magnitude (or both) of the items to which the information relates in the context of an entity's reported service performance information. So as not to overwhelm users with irrelevant information, only material service performance information should be reported.
- AG21 To be useful to users, service performance information should be a faithful representation of the entity's service performance activities and achievements. Service performance information is faithfully represented when it is complete, neutral and free from material error. Complete information does not require an entity to provide every single detail of its reported service performance achievements. Complete information includes all information necessary for a user to understand the phenomenon being depicted, including all necessary descriptions and explanations.
- AG22 Understandability is achieved if service performance information is communicated to users simply and clearly.
- AG23 Timeliness requires service performance information to be reported to users before it loses its capacity to be useful for accountability and decision-making purposes.
- AG24 Service performance information should be able to provide uses with a basis and context to compare an entity's service performance over time, against planned performance and where appropriate to other entities. However, comparability to other entities can be difficult to achieve in the context of service performance information since diverse services are provided. Even where two entities provide exactly the same service they may have different service performance objectives with the result that they need to report different, non-comparable performance indicators. Inter-entity comparability may need to be traded off against relevance, so that service performance objectives and their related performance indicators are chosen to be relevant to the service performance situation of the entity. Alternatively, the needs of users may indicate that performance indicators that are comparable with those of other entities delivering the same services are relevant to the entity, and the two qualitative characteristics of comparability and relevance are aligned.

AG25 In order to meet the qualitative characteristic of verifiability the assumptions that underlie the information disclosed, the methodologies adopted in compiling that information and the factors and circumstances that support any opinions expressed or disclosures made should be transparent. This will enable users to form judgements about the appropriateness of those assumptions and the method of compilation, measurement, representation and interpretation of the information.

Elements of Service Performance Information

Service Performance Objectives

AG26 An entity's service performance objectives can be either output or outcome focussed. For example, an entity can express an output driven service performance objectives as the number of goods and/or services it aims to deliver – i.e. to vaccinate 20,000 children against measles. An outcome driven service performance objective may be expressed an aim to reduce the incidence of measles by 35%.

Performance Indicators

AG27 Inputs, outputs, outcomes, efficiency and effectiveness are all types of performance indicators. Paragraphs AG28 to AG33 provide further details on these types of performance indicators.

Inputs

AG28 Inputs are the resources used by an entity to produce outputs. Inputs are an important aspect of service performance information because when they are linked to either outputs or outcomes they enable users to evaluate how efficiently an entity has achieved its service performance objectives. For example, if an entity establishes a service performance objective of delivering 1,000 meals to elderly residents per week with 10 full-time staff but only manages the same delivery with 11 full-time staff then it has only been approximately 90% efficient in achieving its objective.

Outputs

AG29 Outputs are the goods and/or services provided by an entity to external recipients. Outputs are delivered with an aim of achieving an entity's service performance objectives. When reporting on outputs provided an entity shall only report on outputs that are delivered externally, that is any output used as an internal process shall not be deemed to be an output but it may be determined to be an input if there is a direct link between to the external output.

AG30 Outputs, when linked to a service performance objective, allow users to assess how effectively an entity has achieved that service performance objective. For example, if an entity's service performance objective was to deliver 1,000 meals on wheels per week with 10 staff but it manages to deliver 11,000 meals with the same amount of staff the entity has increased its effectiveness by 10%.

Outcomes

AG31 Outcomes are the impacts an entity has on society (or segments of society) as a result of the delivery of outputs. It is often difficult for an entity to assess what its influence has been on an outcome, as there may be other factors, which will contribute to or detract from the entity's success. Therefore, when assessing the effect an entity has had the entity should only assess those effects that it is reasonably estimable were a result of its outputs.

Efficiency

AG32 Efficiency is the relationship between inputs and outputs and/or outcomes. This is an important measure because it will allow users to assess how well an entity has used its resource to achieve its service performance objectives.

Effectiveness

AG33 Effectiveness is the relationship between service performance objectives and outputs and/or outcomes. Similar to efficiency, effectiveness allow users to assess an entity's success in achieving its service performance objectives.

Selection of Service Performance Objectives and Performance Indicators

AG34 It is important when reporting service performance information that an entity only select to report on those service performance objectives and the related performance indicators that will provide the most useful information to users for accountability and decision-making purposes.

Service Performance Objectives

AG35 A reported service performance objective should reflect the core purpose of the entity – what is its reason for existing and what does it hope to achieve.

AG36 However, when an entity's service performance objective(s) changes, the information reported should reflect that 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.

Performance Indicators

AG37 Judgement is needed to determine the most suitable set of performance indicators to be reported. The overriding principle is that indicators should be selected on the basis of their importance to users and their usefulness in assessing the entity's achievements in terms of its service performance objectives. For performance indicators to be relevant they should link directly to one or more of the entity's service performance objectives. Alignment between the different indicators presented – for example between input, output and/or outcome performance indicators – and the service performance objectives helps users to assess the relationship between resources and results, and how resource availability may have influenced achievement of service performance objectives.

AG38 When an entity has publicly reported planned performance indicators the actual performance indicators presented will usually be consistent with those previously made public.

AG39 Ease of measurement is likely to be a consideration when selecting performance indicators, but it should be secondary to the needs of users. The performance indicators presented should not over-emphasise easily measured dimensions.

AG40 In some situations a qualitative description (also called narrative information) should be presented as a performance indicator. This could be the case where service performance achievements cannot be reduced to a small set of quantitative or qualitative measures because the service:

- (a) is complex;
- (b) involves interrelated factors; and
- (c) involves a large number of different possible indicators of success or progress, all of which involve judgement as to their relative importance.

- AG41 Information reported on any particular service may include one or more different types of performance indicators; quantitative measures, qualitative measures and/or qualitative descriptions.
- AG42 The extended timeframe of multi-year service performance objectives should not be a deterrent to reporting multi-year objectives and disclosing progress towards their achievement, although ways to report on progress in a cost-effective way may need to be developed. Alternative or proxy measures that indicate progress towards achievement of the service performance objective may be able to be presented in the short-term, until information on achievement of the multi-year service performance objective is available. For example, where an entity establishes both annual outputs and longer term, multi-year outcomes for one or more service area(s) there may be scope to treat annual reporting against outputs as indicative of progress towards achievement of the outcomes, with actual outcomes reported less frequently.

Service Performance Information to be Reported

- AG43 An entity shall disclose sufficient information to enable users to evaluate whether the information on service performance objectives, performance indicators and total cost achieves the qualitative characteristics of financial reporting.

Information to be Reported by All Entities

- AG44 The information required to be reported by all entities should enable entities to tell their service performance stories from its service performance objectives through to the achievement of those objectives and their efficiency and /or effectiveness of that achievement.
- AG45 In reporting service performance information an entity should provide:
- (a) an explanation of the service performance objectives, which describes how they have been established, the need for them to be achieved, and the relationship(s) between the service performance objectives and:
 - (i) the chosen performance indicators; and
 - (ii) the entity's overall objectives.
 - (b) an explanation of the relationship(s) between related performance indicators. (For example, information on the

extent of alignment between input, output and/or outcome indicators, where the inputs and outputs contribute to achievement of a particular outcome.); and

- (c) an explanation of the basis for information aggregation (or disaggregation), which addresses the level of detail reported.

AG46 To enhance the usefulness of service performance information to users, an entity should provide sufficient information for users to understand the risks involved in achieving an entity's service performance objective and the strategies used to mitigate those risks.

AG47 In presenting costs of outputs and entity should provide information on:

- (a) its cost allocation policies;
- (b) the treatment of direct and indirect expenses; and
- (c) a reconciliation or a comparison between the cost of outputs and the total expenses presented in the financial statements.

AG48 Paragraph AG54(c) may only require the identification of any unallocated expenses in the financial statements.

AG49 When a controlling entity reports on services provided by its controlled entities, the controlling entity should disclose information that explains the respective roles and responsibilities for service performance within the economic entity.

Disclosures when the service performance reporting period is different to the financial statements

AG50 This [draft] Standard allows service performance information to be reported on a different time-period to that of the financial statements and requires entities to disclose:

- (a) the fact that the reporting periods are different;
- (b) why they are different; and
- (c) the reporting periods of the financial statement that relate to the reported service performance information.

AG51 In some circumstances, an entity may have some service performance activities aligned with the financial statements and other service

performance activities which are for a different reporting period. In this circumstance the entity should provide the following information:

- (a) the service affected;
- (b) the applicable reporting period(s); and
- (c) an explanation for the difference(s).

Disclosures when service performance information is reported separately from the financial statements

AG52 This [draft] Standard does not require service performance information to be reported in the same report as the financial statements. However, when service performance information is reported separately from the financial statements an entity should ensure that the relevant financial statements are easily identified so that users can access them easily. This could be done with a cross-reference or via hyperlinks.

Reporting against Planned Service Performance

AG53 When an entity has made its planned service performance public, an entity shall report its actual service performance against that plan. In this circumstance, entities should apply the principles in AASB 1055 *Budgetary Reporting* which require reporting against original budgets. However, an entity may consider its revised service performance plan to help identify any variance(s) that may have occurred between the original planned service performance and its actual service performance.

Transition

AG54 This [draft] Standard does not require entities to provide comparative service performance information against prior periods, however if an entity chooses to do so, because it will provide relevant and useful information, it need not present a comparison for the first year of applying this [draft] Standard because the relevant information may not be readily available.

APPENDIX C

ILLUSTRATIVE EXAMPLES

NOTE: THESE ILLUSTRATIVE EXAMPLES ARE TAKEN FROM THE IPSASB'S RECOMMENDED PRACTICE GUIDELINE RPG 3 REPORTING SERVICE PERFORMANCE INFORMATION WHICH WAS ISSUED ON 31 MARCH 2015.

Comment [JS4]: Note to Board
Extra illustrative examples as discussed at the April 2015 Board meeting have not yet been drafted.

These illustrative examples accompany, but are not part of AASB 10XY

- IE1. The examples in this appendix portray hypothetical situations. Although some aspects of the examples may be present in actual situations, all facts and circumstances of a particular situation would need to be evaluated when applying [draft] Standard AASB 10XY. Where a cost is identified the amount is expressed in "currency units" (CU).
- IE2. The first part of this appendix lists examples of terms defined in the [draft] Standard. It is not intended to be an exhaustive list of examples for all defined terms. The examples illustrate the meaning of different terms usually through reference to an entity that provides health services. The examples focus on one service – the provision of vaccinations to infants in order to prevent measles. The entity uses a range of inputs to produce its outputs (measles vaccinations). Those outputs are then expected to cause (directly or indirectly) the desired outcome(s).

Part 1: Examples of Defined Terms

- **Service Performance Objectives (SPO):**

This [draft] Standard states that service performance objectives may be expressed using performance indicators of inputs, outputs, outcomes efficiency, or effectiveness or through a combination of one or more of these performance indicators. The following are examples of service performance objectives that have these different forms of expression. The first example is of a service performance objective that has a focus on inputs, the second has a focus on outputs, the third has a focus on outcomes, the fourth example has a focus on efficiency and the fifth has a focus on effectiveness.

- To apply 1,200 full-time equivalent days of medical staff time to vaccination services.
- To provide 20,000 vaccinations to infants.

- To reduce the percentage of infants who contract measles annually from 65% to 2% within five years i.e. by the end 20XX.
- To reduce the total cost per vaccination from CU5 to CU4.
- To achieve 100% of the planned vaccinations to infants.
- **Input:** The number of full-time equivalent staff days used to provide vaccinations against measles.
- **Outputs:** The number of infants vaccinated against measles.
- **Outcome:** A reduction in the number of infants that contract measles. (The reduction could be expressed in absolute terms (5,000 fewer incidents of measles) or as a percentage reduction (a 35% reduction in infants contracting measles)).

This [draft] Standard states that outcomes could be impacts affecting society as a whole or impacts on particular groups or institutions within society. Outcomes could be relatively direct impacts on recipients of the entity's services. They could also be impacts on others that are not recipients of the entity's services but who benefit indirectly from those services. This [draft] Standard also states that factors beyond the entity's control may intervene to either hinder or facilitate the entity's achievement of outcomes. The first example below illustrates an outcome that affects a particular group within society. The second and third examples illustrate a direct impact on service recipients and an indirect impact on non-recipients. The fourth example illustrates a situation where factors beyond the entity's control intervenes to facilitate the entity's achievement of an outcome.

- A 35% reduction in the incidence of measles for infants within the lowest socio-economic decile.
- A reduction in the number of incidents of measles experienced by recipients of measles vaccinations provided by the entity is an example of a direct impact on the recipients of the entity's services.
- Children going to the same schools as those that vaccinated children attend but who have not received a vaccination will also be impacted indirectly by the entity's vaccination services, because their risk of contracting measles is reduced.
- An outbreak of measles in a nearby region leads to extensive media coverage of measles related health risks and an increased vaccination rate in that nearby region covered by another health

services provider. These factors facilitate achievement of the entity's outcome to reduce the incidence of measles in its own region. The factors evident in the other region (measles outbreak, media coverage and increased vaccination rate) are outside of the control of the entity.

- **Efficiency:**

This [draft] Standard states that efficiency is the relationship between (a) inputs and outputs, or (b) inputs and outcomes. The two examples in the first bullet point below illustrate efficiency expressed as the relationship between inputs and outputs. The example in the second bullet point illustrates efficiency expressed in terms of inputs and outcomes.

- "Cost per infant vaccinated" is an example of an efficiency indicator that relates outputs (vaccinations) to an input (cost). Efficiency may also be expressed in terms of other inputs such as, for example, number of staff or staff time. For example, 1,000 vaccinations annually per qualified medical staff member.
- "Cost per reduction in number of infants contracting measles" is an example of an efficiency indicator that relates an outcome (reduction in number of infants contracting measles) to an input (cost).

- **Effectiveness:**

This [draft] Standard states that effectiveness is the relationship between actual results and service performance objectives. Therefore an assessment of effectiveness depends on the type of service performance objectives that the entity has presented. The three examples below illustrate effectiveness for different service performance objectives. The first example illustrates effectiveness where the service performance objective was expressed in terms of inputs, the second in terms of outputs, and the third in terms of an outcome.

- The service performance objective was to provide 100,000 measles vaccinations to infants during the year ended 31 March 20XX. The actual result achieved was 99,000 vaccinations. Therefore the entity's effectiveness in this area was 99%.
- The service performance objective was to reduce the number of infants that contract measles by 3,000 compared to the previous year. The actual result achieved was a 3,000 reduction in infants contracting measles. Therefore the entity's effectiveness in this area was 100%.

- **Performance indicator—Qualitative Description:**

This[draft] Standard states that performance indicators are quantitative measures, qualitative measures, and/or qualitative descriptions of the nature and extent to which an entity is using resources, providing goods and/or services, and achieving its service performance objectives. The example below illustrates a performance indicator expressed as a qualitative description:

A government department (the Ministry) responsible for supporting the government's relationships with other nations, including trade relationships, uses the following qualitative description as one of its performance indicators:

Engagement with Latin America during this year is expected to include several successful ministerial-led business missions to national governments and ministerial engagement in two regional forums. The Ministry will provide host and other support for ministerial level visits from several countries in the region, and undertake bilateral foreign policy consultations. Consultations will include advocacy of free trade agreements. The diplomatic network in several Latin American countries will be expanded through additional consulates and honorary consuls.

BASIS FOR CONCLUSIONS

Comment [JS5]: Note to Board
This Basis for Conclusions is still a work in progress

This Basis for Conclusions accompanies, but is not part of, AASB 10XX.

Background

- BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board's considerations in reaching the conclusions in the Exposure Draft. Individual Board members gave greater weight to some factors than to others.
- BC2 The Board initiated a project on Reporting Service Performance Information as part of its response to concerns expressed by constituents that the disclosures required of private sector not-for-profit (NFP) entities by existing Australian Accounting Standards are not sufficiently targeted to the needs of users.
- BC3 The Board noted that the primary objective of a for-profit entity is to obtain a return on investment for investors. Therefore, to evaluate the entity's achievement of this objective, profit is frequently used as a measure of performance or as the basis for other measures, such as return on investment or earnings per share. Generally this information can be gained from the financial statements.
- BC4 However, in the NFP sector, an entity's primary objective is not the generation of profit but rather the provision of goods and/or services for the community or social benefit. Therefore, to enable users to assess whether a NFP entity has met its objectives it is necessary for such entities to report on its service performance in addition to its financial statements.
- BC5 The Board agreed that initially the project should focus on additional disclosures to those set out in Australian Accounting Standards for private sector NFP entities, having regard to the information needs of users of general purpose financial statements. In the first instance, consideration should be given to work being undertaken by the International Public Sector Accounting Standards Board (IPSASB) and the New Zealand Financial Reporting Standards Board on service performance reporting. Consideration should also be given to the International Accounting Standards Board's work on Management Commentary.
- BC6 The Board expressed its desire not to increase the disclosure burden on NFP entities and decided the project should also consider whether

there are any existing disclosure requirements in Australian Accounting Standards for which the information provided to users might not be justified from a cost/benefit perspective. The Board also agreed that the project should involve ongoing consultation with constituents rather than a series of consultation documents and accordingly a Service Performance Reporting Project Advisory Panel (PAP) was established.

- BC7 Subsequently, the Board considered whether the IPSASB ED 54 *Reporting Service Performance Information* could provide a suitable basis for accelerating the AASB project. The Board also noted that the New Zealand Accounting Standards Board (NZASB) was developing a standard on service performance reporting. The Board decided that IPSASB ED 54, in combination with the AASB staff's 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. The Board also decided that the project should include within its scope both public sector and private sector NFP entities.
- BC8 In developing this Exposure Draft, the AASB shared views with the NZASB, however jurisdictional differences meant that the projects of the two Boards were conducted as separate projects. However, the Boards have an objective of using similar principles to guide the development of requirements.
- BC9 In April 2015 the Board noted that the IPSASB had issued Recommended Practice Guideline RPG 3 *Reporting Service Performance Information* (as a result of ED 54) and reconfirmed that this [draft] Standard should continue to be drafted using the principles and requirements articulated in that RPG.

Significant Issues

Application

- BC10 Although the original project scope was to apply only to private sector NFP entities, the Board noted the developments on performance reporting in the not-for-profit public sector (for example the Public Management Reform Agenda for Commonwealth government agencies) and decided that the application of the project should be expanded to include NFP entities from both the private and public sector. The Board also considered whether the requirements of this [draft] Standard could be applied by for-profit entities but decided that this question could be asked of constituents for comment.

- BC11 The Board also considered whether this [draft] Standard should have mandatory or voluntary status and decided that should be a mandatory requirement for NFP entities as it will produce useful information for users in regards to an NPF entity's performance against its service performance objectives, which may not otherwise be available. However, the Board was also decided that constituents would be asked to comment on the status of the [draft] Standard.

Scope

- BC12 The Board decided that the scope of this [draft] Standard should be limited only to include information reported in regard on an entity's service performance because this was of particular importance to users of NFP reporting in assessing their achievement of service performance objectives. Accordingly, the Board decided that the project should not be extended to include information on other performance information such as on sustainability and environmental issues as this type of performance assessment is not unique to NFP entities.

Reporting Entity

- BC13 The Board discussed what was an appropriate boundary for the entity reporting service performance information and decided that the reporting entity should be the same as that for the entity that prepared general purpose financial statements. This will allow users to assess service performance information and financial information on a consistent basis.
- BC14 The Board also discussed whether entities that prepare consolidated financial statements, particularly whole-of-government and general government sector financial statements, should be excluded from reporting service performance information on the basis controlled entities may already be reporting service performance information and that the information reported by the controlling entity as a group may not link directly to the controlled entities own service performance objective.
- BC15 However, the Board noted that in some instances a controlled entity may not be required to report its own service performance information therefore if the controlling entity was exempt this information would not be reported. Further, it was noted that some governments prepare a 'whole of government' plan, which should be reported against. Accordingly the Board decided tentatively not to exclude entities that prepare consolidated financial statement from reporting service performance information for the group but rather

comments regarding this issue would be specifically sought from constituents.

Reporting Period

- BC16 The Board discussed whether the reporting period for service performance information should be the same as for the financial statements of the entity. It was decided that whilst having the periods aligned was preferable there may be circumstances when an entity will conduct a service program on a different time period to that of the financial statements and that this [draft] Standard should allow entities to report on differing time periods if it provides more useful information to users.

Location of Service Performance Information

- BC17 The Board discussed whether this [draft] Standard should specify where service performance information should be presented. It was noted that the NZASB project required entities to present service performance information in the same report as the general purpose financial statements unless legislation required otherwise specified. The AASB decided not to be prescriptive of where service performance information should be reported but rather allow entities to determine a location that best suits user needs.

Principles for Reporting Service Performance Information

- BC18 When developing the principles to be applied to service performance information the Board agreed that consideration should be given to the IPSASB's and NZASB's service performance reporting projects as well as the principles articulated in previous AASB research papers. It was also agreed that it was important for these principles to be expressed in such a way that they result in an entity providing appropriate information about the achievement of its service performance objectives. Accordingly, the overriding principle for reporting service performance information is that the information should be useful for accountability and decision-making purposes.
- BC19 The Board also discussed whether the [draft] Standard should require entities to report both positive and negative information in regard to its service performance and decided that to enable a balanced report of an entity's service performance activities both aspects should be reported.
- BC20 The Board also decided that service performance information should all meet the qualitative characteristics of useful financial information

as articulated in the *Framework for the Preparation and Presentation of Financial Statements*. One Board member expressed concern that the ‘complete’ aspect of faithful representation may be misunderstood and result in entities providing voluminous information that could detract from the usefulness of the information. Therefore, Board decided that this issue should be addressed in the application guidance.

Elements of Service Performance Information

- BC21 The Board agreed that the key elements of service performance information were an entity’s service performance objectives and how the achievement of those objectives are measured. These two elements enable an entity to tell its story about what it aims to achieve and how well it has or has not achieved its aims.
- BC22 An entity may have many service performance objectives, and so as not to overwhelm users, the Board decided that entities should only report on those service performance objectives that will provide the most useful information for users.
- BC23 In relation to performance indicators, the Board decided that inputs, outputs, outcomes, efficiency and effectiveness are all types of performance indicators that are capable of providing relevant information and, therefore, an entity should be required to report on these indicators in relation to the entity’s service performance objectives.
- BC24 The Board also decided that in regard to entities that hold themselves out to be accountable for outcomes additional information should be reported to assist users’ understanding of the outcomes they are seeking to achieve.

Service Performance Information to be Reported

- BC25 Aside from reporting on service performance objectives and performance indicators, the Board decided that the [draft] Standard should not be excessively prescriptive in regard to what service performance information an entity should report, but rather allow entities to determine what information would be useful for accountability and decision-making purposes.

Reporting against Planned Service Performance

- BC26 This [draft] Standard does not require entities to make public forward looking service performance plans but the Board decided that when

an entity has done so, the entity should report its achievements against that plan, as this will enhance the users understanding of the service performance information reported. The Board also discussed whether the an entity should report against an original plan or a revised plan and decided that entities should follow the principles in AASB 1055 *Budgetary Reporting* which only allows reporting against original plans. However, the Board noted that an entity could look to its revised plan to determine help the report on any variance from planned to actual service performance.

Defined Terms

- BC27 The Board decided that for the most part this [draft] Standard would use the defined terms as used in RPG 3, but would add or alter defined terms as deemed necessary.
- BC28 Accordingly, the Board discussed whether the term ‘accountability’ (a term not defined in RPG 3) should be defined because there was no current definition in the AASB suite of Accounting Standards. However, the Board noted that ‘accountability’ was already used in a number of other Australian Accounting Standards and therefore considered that its meaning was understood and did not need defining in this [draft] Standard.
- BC29 Performance reporting has a broader scope than service performance, there the Board decided to add definitions for ‘service performance information’ and ‘service performance’ to narrow the type of information that should be reported as a result of this [draft] Standard.
- BC30 In regard to the definition of ‘service performance objective’ the Board altered the RPG 3 definition to only define what such an objective was and therefore removed how such an objective could be expressed (inputs, outputs, outcomes and efficiency) which forms part of the RPG 3 definition.

Comparison with IPSASB RPG 3 Recommended Practice Guideline

[To be completed]

RIS Requirements

[To be completed]