



<b>Project:</b>	<b>Reporting Service Performance Information</b>	<b>Meeting</b>	AASB December 2015 (M149)
<b>Topic:</b>	<b>Feedback from Outreach Sessions</b>	<b>Agenda Item:</b>	6.1
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		<b>Decision-Making:</b>	High
		<b>Project Status:</b>	In progress

## Introduction and objective of this paper

- 1 The objective of this paper is to:
  - (a) provide the Board with high-level feedback from the outreach program conducted for ED 270 *Reporting Service Performance Information*; and
  - (b) seek Board members views on whether the due date for comment on ED 270 should be extended from 12 February 2016 to 29 April 2016.

## Link to project summary

[http://www.aasb.gov.au/admin/file/content102/c3/SPR\\_Project\\_Summary.pdf](http://www.aasb.gov.au/admin/file/content102/c3/SPR_Project_Summary.pdf)

## Summary of staff recommendations

- 2 AASB staff recommend that the comment period for ED 270 *Reporting Service Performance Information* be extended from 12 February 2016 to Friday 29 April 2016 to allow further engagement with not-for-profit (NFP) private sector entities.

## Background

- 3 During November 2015, The Chair, AASB members and AASB staff conducted an extensive outreach program to obtain feedback on the proposals made in ED 270. Education Sessions and Roundtables were held in Adelaide, Brisbane, Canberra, Melbourne, Perth and Sydney. The degree of attendance was varied between cities and the following table provides details of the number of attendees and the sectors represented.

Location	Education Sessions				Roundtables			
	NFP Public Sector	NFP Private Sector	Other <sup>1</sup>	Total	NFP Public Sector	NFP Private Sector	Other	Total
Adelaide	9	1	3	13	5	1	2	8
Brisbane	35	-	6	41	16	-	4	20
Canberra	4	3	1	8	3	4	2	9
Melbourne <sup>2</sup>	5	11	12	28	1	6	14	21
Perth <sup>3</sup>	11	5	5	21	6	3	5	14
Sydney <sup>4</sup>	15	6	9	30	7	4	13	24
<b>Total</b>	79	26	36	141	38	18	40	96

4 As the table indicates, there was a far higher level of participation from the NFP public sector than the NFP private sector. This was disappointing given that the proposals of the ED would potentially have the largest impact on the NFP private sector entities.

### Key takeaways from the Education Sessions and Roundtables

5 The points to take from the Education Sessions and Roundtables are as follows:

- **Mandatory Status** – the majority of participants were against any pronouncement arising from ED 270 having a mandatory status. There were 2 diverse reasons for these views, some felt the proposals would not add any value (i.e. proposals were too ‘fluffy’), and others felt the proposals were too onerous. There was concern that having mandatory proposals without the requirement to have an audit or review may lead to information that is not useful and would not be ‘mandatory’. There was significant uncertainty as to who the users of such information would be and what value they would be provided – more “evidence” required as to whether benefits outweigh costs.
- **Reporting Entity and Consolidation** – there was little support for requiring service performance information to be reported at a consolidated level in the public sector. For the private sector, there were few large private sector entities currently consolidating, with mixed feedback as to practicality (there would need to be more guidance on how to consider at a consolidated level).
- **Terminology** – the terminology used needs to be revisited to ensure consistency with existing service performance reporting frameworks such as those for state and local government and for that used for social impact reporting.
- The proposals are too detailed, and need to be pared back to form a higher level principles-based framework to make it more palatable for preparers to implement. The proposals do not deal with the difficulties of finding appropriate outcome measures, and imply that these need to be identified and measured at reporting

<sup>1</sup> ‘Other’ attendees were a mix of representatives from Accounting firms, students, individuals and regulators.

<sup>2</sup> Taryn Rulton and Steve Mitsas attended the Melbourne Roundtable

<sup>3</sup> Ann Tarca attended both the Perth Education Session and the Roundtable

<sup>4</sup> Anna Crawford attended both the Sydney Education Session and the Roundtable

date. Many entities in the public sector have been working on these measures for many years, and have still not resolved what they should be. Accordingly the proposals need to be clear that it is appropriate to start small and progressively improve. There was some support for an ‘if not, why not?’ approach to disclosures.

- The proposals are written too much like an accounting standard, in some instances it will not be accountants trying to apply the requirements of a pronouncement, and therefore it needs to be as user friendly as possible.
- For those who supported progressing the project, they saw value in NFP entities reporting on their service performance to bring to life the financial information provided and better articulate their accountability. Providing a framework was seen as important, as there is currently no consistent usage of a framework in either sector. All participants agreed financial information is not enough to explain what they have achieved. Many participants are already providing this information.

These key points are expanded on in the following paragraphs.

### **Summary of feedback from Education Sessions and Roundtables**

- 6 The Education Sessions ran for one and a half hours and were held in a presentation style that allowed AASB staff to outline the key proposals in ED 270. The sessions were interactive with participants asking questions about the ED and also responding to questions from AASB staff on the ED. Each Roundtable ran for two hours and was conducted as a forum for AASB staff to obtain specific feedback on particular aspects of the ED’s proposals. Questions for discussion were provided to participants prior to each roundtable.
- 7 Feedback from both the educations sessions and roundtables has been combined into the following summary.

#### General comments

- 8 Participants strongly agreed that the financial statements by themselves do not provide sufficient information about a NFP entity, its objectives and its achievements of those objectives for users to assess performance and agreed with the objective of the service performance reporting project.
- 9 However, many participants considered that the proposals were too detailed and would be onerous for smaller NFP entities to apply, particularly if the entity was required to measure efficiency and effectiveness measures and performance related to outcomes.
- 10 Comments were also made that smaller entities in both the NFP private and public sectors may not have staff with sufficient skills to interpret the proposed service performance reporting requirements, as they are currently written in the same style as an accounting standard. Therefore, it was suggested that a pronouncement on service performance reporting should be written in a style that would be easy to understand by a preparer that was not familiar with accounting standards. Further, a range of illustrative examples would aid preparers in interpreting the requirements in the pronouncement.

## Principles for reporting service performance information

- 11 Participants were asked if they agreed with the following principles for reporting service performance information as set out in paragraph 20 of ED 270. These principles state that an entity is required to report service performance information that:
- (a) is useful for accountability and decision-making purposes;
  - (b) shall be appropriate to the entity's service performance objectives;
  - (c) clearly shows the extent to which an entity has achieved its service performance objectives; and
  - (d) should enable users to assess the efficiency and effectiveness of the entity's service performance.
- 12 The greatest cause for concern was on the proposal requiring an entity to report on the efficiency and effectiveness of the entity's service performance. Many participants considered that this may be too onerous particularly if the service performance objective was outcome focussed, because measuring outcomes is difficult and can be resource intensive. It was suggested that the principles could stop at (c) and that efficiency and effectiveness could be reported if the information was available but it should not be a mandatory requirement.
- 13 Participants questioned who the users were that were requiring service performance information as this was not fully explained in the ED and it was suggested that a detailed discussion on users should be included in the final pronouncement on Service Performance Reporting.
- 14 There was some discussion regarding terminology, specifically whether 'appropriate' was a suitable term to use in principle (b) as it was not clear what 'appropriate' meant in this context. Some suggestions for an alternative term included 'relevant', or 'targeted'. It was further suggested that (b) needed more guidance to bring the concept to life. Participants thought that 'service performance objective' was a foreign concept and needed more explanation. This was supported by other participants who stated that 'service performance objective', did not resonate well as it was not immediately clear what was meant by a service performance objective and proposed alternatives such as 'activities' or 'purpose'. However, some participants considered that 'purpose' was at a higher level than an objective and was akin to an entity's vision/mission statement.

## Mandatory Status

- 15 Whilst there were mixed views on whether a final pronouncement should be mandatory, the majority of participants were not in favour of a mandatory status.
- 16 Participants commented that if an entity was a grant recipient, that entity was already subject to detailed reporting back to the grantor (much of this reporting is not made public) and that further reporting requirements would be onerous.

- 17 Although ED 270 does not propose that service performance information is required to be audited, participants nevertheless commented that if any pronouncement had a mandatory status there would be concerns over the validity of the information provided and depending on where it was presented, for example, in a report accompanying the financial statements, it may still require oversight by the auditor which would increase compliance costs.
- 18 There were further concerns on how compliance with a standard would be communicated, because if Note 1 of the financial statements stated that the entity had complied with all accounting standards (including a standard on reporting service performance information) then this would also require the service performance information to be audited. Participants also commented that if the reporting requirements are mandatory but there was no audit requirement, entities may not comply.
- 19 Some participants that did not support a mandatory status suggested that the final pronouncement should become a best practice guide and that if users wanted the information, the market would compel the entities to report the information. It was also suggested that better information would be reported if it was issued as best practice guidance. It was further stated that it is the role of the regulator, not the standard-setter to set the status of any pronouncement of reporting service performance information.
- 20 Another suggestion was to make the a final pronouncement voluntary guidance and then undertake a post implementation review a few years after the guidance was issued to determine the adoption, this participant also commented that it would be important to get support from the ACNC on this.
- 21 Of those participants that supported a mandatory status some suggested that if the final pronouncement were only an overarching framework then that framework should be mandatory. Others suggested that if an entity was in receipt of government grants then final pronouncement should be mandatory and if grants were not received the market would determine whether an entity should provide service performance information. Similarly, another participant suggested that it should not be mandatory for entities already required to report service performance information under another framework.
- 22 Other comments in support of a mandatory status included that a voluntary status would defeat the purpose of the project, that is, to get all NFP entities reporting service performance information on at least some basis. It was also suggested that the information may be unreliable if it was not mandatory. It was suggested that the information provided under a non-mandatory basis could be likened to ‘marketing fluff’. However, other participants suggested that a mandatory status would result in poor data as entities might take a ‘tick the box’ approach and provide the least amount of information possible , further entities might ‘cherry pick’ service performance objectives to ensure a positive outcome.
- 23 It was suggested that the final pronouncement could be implemented on an ‘if not why not’ basis, much like the *ASX Corporate Governance Principles and Recommendations*, this idea gained some support from participants.

## Reporting Period

- 24 Participants generally supported the option for an entity to provide service performance information on a different reporting period to its financial statements although they noted that it would be easier to report on the same period.
- 25 Some concern was expressed regarding identifying the related financial information, but seem satisfied when informed that a cross-reference to all relevant financial statements would be required, along with an explanation of why the reporting periods differed.

## Presentation

- 26 The flexibility regarding how service performance information could be presented was welcomed by participants. However, as noted above comments were made that if service performance information was presented in the same report as the financial statements, an entity's auditor would need to review that information for consistency with the financial statements.

## Reporting Entity and Consolidation

- 27 Participants were asked whether they agreed that the reporting entity for reporting service performance information should be the same as the entity that prepares general purpose financial statements, including at the consolidated level. This proposal created much resistance particularly from the NFP public sector. Reasons given as to why it would not be appropriate included:
- (a) the information reported would be meaningless;
  - (b) whole of government or state plans are just political tools which are likely to change in an instant with a change of government;
  - (c) the whole of government does not provide a service therefore there is nothing to report performance against; and
  - (d) whole of government objectives tend to be long-term and therefore reporting performance on these long-term outcomes may be problematic.
- 28 In regard to the NFP private sector, it was noted that the ACNC does not require entities to report on a consolidated basis unless the entity has applied for group status, therefore reporting at a consolidated level would create an extra burden.
- 29 Other participants noted that faith organisations are not controlled and therefore do not provide consolidated financial statements. AASB staff advised participants that this requirement would only apply to entities that prepared consolidated financial statements for example at a whole of government, general government or controlling entity level and therefore there would be no implications for entities that do not consolidate.

### Cost of services

- 30 Comments were made that clarity was needed about the proposal to provide the total cost of goods and services. Participants were unsure if this meant at a program level, objective level or even entity purpose level. The level of aggregation possible would depend on the costing systems utilised which may or may not support detailed cost information, therefore, some participants considered that this could be quite onerous.
- 31 A suggestion was made that an approach similar to segment reporting could be used which had appeal for some participants.

### Defined terms

- 32 Participants were asked if there were any issues with the terminology used throughout the proposals. In addition to those mentioned above (appropriate and service performance objectives) it was also suggested that:
- (a) goods and services may not be indicative of an entity's endeavours, particularly for faith organisations and that perhaps 'activities' would be more suitable;
  - (b) the term 'service performance' by itself should not be used as it can be confused with service performance objective;
  - (c) the term 'performance indicator' conjured thoughts of key performance indicators and numerical measures, it was suggested and noted that the commonwealth government uses the term 'performance measures'; and
  - (d) the phrase 'positive and negative information' might seem too threatening and that it should be changed to either 'balanced' or 'neutral' information.
- 33 Some participants suggested using terms associated with social impact reporting whilst others suggested aligning terms with those used in existing performance reporting frameworks.

### **Staff Recommendation**

- 34 The feedback from these sessions has raised staff awareness about the challenges NFP entities may face when reporting service performance information as set out in ED 270. Staff consider that they have sufficient feedback from the NFP public sector but as noted at paragraph 4, participation from the NFP private sector was considerably lower than from the NFP public sector.
- 35 Therefore, staff are of a view that it is important to take more time to engage more fully with the NFP private sector to seek their views prior to the close of comment period for ED 270. Because the current due date for comment (12 February 2016) is close to the beginning of the year and many constituents may be on leave, staff think it will be necessary to extend the comment period until the end of April 2016. This would give staff sufficient time to conduct targeted outreach with the NFP private sector. Staff also note that the extension of the comment period for this project would not have any impact on other AASB projects as this project is not linked to any other AASB project.

- 36 Therefore, staff suggest extending the date for comment on ED 270 from 12 April 2016 to Friday 29 April 2016 so that further targeted outreach can be undertaken to understand fully the issues faced by this sector.

**Question to the Board**

Does the Board agree that the comment period for ED 270 *Reporting Service Performance Information* should be extended to 29 April 2016?