

## **Paper 4: Common features of service performance reporting frameworks found in practice as at 19 February 2010**

### **Background**

- 1 In July 2009 the Australian Accounting Standards Board (AASB) decided to initiate an active project 'Disclosures by Private Sector Not-for-Profit Entities'. Initially, the project's focus is on disclosures that Australian Accounting Standards do not currently require of private sector not-for-profit entities that should be required, having regard to the information needs of users of general purpose financial statements. In the first instance, consideration is being given to service performance reporting.
- 2 Key tentative decisions relating to service performance reporting made by the AASB to date are:
  - to continue its work on service performance reporting even though the Conceptual Framework project has not yet addressed the broader question of the scope of general purpose financial statements and financial reporting [9/10 December 2009 meeting];
  - to adopt a working assumption that it will develop at least some mandatory requirements, expected to be in the nature of high-level principles [23/24 September 2009 meeting];
  - that work should proceed on the assumption that service performance reports might comprise both financial and non-financial information of a quantitative or qualitative nature, and might include disaggregated/program financial information that is pertinent to an assessment of an entity's service performance [23/24 September 2009 meeting];
  - that the scope of the AASB project will not be broadened to encompass public sector not-for-profit (NFP) entities at this time. [28/29 October 2009 meeting] [Although the AASB's focus is on the private sector, practice in both the public sector and private sector is to be researched to ascertain the common features of service performance reporting found in practice];
  - to adopt a working principle for constraining the type of information that the Board would consider requiring in service performance reports as: 'service performance information that relates to an entity's principal objectives' [9/10 December 2009 meeting]; and
  - that the implications of its Differential Reporting project would need to be considered for service performance reports [9/10 December 2009 meeting].
- 3 The New Zealand Financial Reporting Standards Board (FRSB) is also undertaking a project, which encompasses the review of existing requirements and guidance within NZ GAAP, relating to service performance reporting. Although the current

requirements and guidance in NZ GAAP apply to any entity preparing a statement of service performance, legislative requirements mean that it is predominantly public sector entities that prepare such statements.

- 4 At their joint October 2009 meeting the AASB and NZ FRSB decided to work on a joint project with an objective of developing general principles for service performance reporting. Although each Board has a different focus, both Boards felt that the difference did not prohibit establishing a joint project to develop general principles of service performance reporting.

### **Purpose of this paper**

- 5 The purpose of this paper is to report on the common features project staff have found in relation to mandatory and voluntary service performance reporting in international and domestic jurisdictions for for-profit and not-for-profit entities in the public and private sectors. This paper is the result of an analysis of the empirical research reported in Papers 1-2A as at 5 February 2010. Earlier drafts of those papers were included in the papers of the September 2009 AASB meeting (Agenda Papers 7.3-7.4A). Our research focuses on publicly available domestic and international service performance reporting requirements taken from various countries' and Australian jurisdictions' reporting frameworks and published financial statements and reports from both the public and private sectors. In order to get breadth of research across countries, jurisdictions and types of entities, some depth has been sacrificed in terms of the number of entities/frameworks considered in each of those countries/jurisdictions/types of entities researched. Our research has not assessed the extent to which entities have complied with any explicit service performance reporting framework that might be applicable to them. Our aim was to capture a perspective of practice in a broad sense.
- 6 It is intended that this paper be used ultimately as input to identifying principles the Boards could specify for the form and content of service performance reports. Although this paper draws on the explicit and implicit service performance reporting frameworks found in practice (implicit referring to the frameworks for service performance reporting implied by service performance reports that have been prepared without reference to an explicit framework), it is not intended that such practice necessarily be codified. Nor is it intended that this paper concludes on what the principles of service performance reporting requirements should be. Rather, this paper uses the status quo to provide a structure to consider the issues that might be relevant in developing principles at a future point. A further series of papers (as outlined in item 7.8 of the project plan dated 2 February 2010) will more specifically address and provide staff recommendations relating to the principles of service performance.
- 7 There are questions at discrete points throughout the paper, which have been collected together in Appendix 1 of this paper. Their purpose is to seek your views based on your knowledge of the not-for-profit sector, on whether you think we have represented practice reasonably. Although we go further and ask whether you think practice might provide a useful starting point for considering the principles that might be developed, we are not, at this stage, asking you to comment on what you think the

principles should be. Please bear with us, those questions will be asked of you in later papers.

### **Common features**

8 For the purpose of this paper, the common features of the service performance reporting frameworks we found in our research can be categorised under the following broad headings:

- (a) terminology and definitions commonly used in relation to service performance reporting;
- (b) the objective and scope of service performance reporting;
- (c) the relationship of service performance reports to conventional financial statements;
- (d) the users of service performance reports;
- (e) the qualitative characteristics of service performance reporting; and
- (f) the type of information included in service performance reports.

9 Our findings relating to definitions commonly used, the objective of service performance reporting, the users of service performance reports and qualitative characteristics of service performance reporting have generally been based on the explicit reporting frameworks we found. This is because it is those frameworks that refer to such conceptual issues, rather than the service performance reports themselves. The explicit service performance reporting frameworks we found were aimed at the public sector (with the exception of NZ). However, consistent with paragraph 2, point 4 above, we think those public sector frameworks can inform our thinking in a private sector context. When researching the users of service performance reports, we also reviewed research that others had undertaken, including academic research into the question of who the users of service performance reports are. Our findings relating to the terminology commonly used, the scope of service performance reporting, the relationship of service performance reports to conventional financial statements and the type of information included in service performance reports are based on both the explicit frameworks and the frameworks implicit in the service performance reports from the public and private sector found in practice.

#### ***(a) Terminology and definitions commonly used within service performance reports***

10 The definition of service performance reporting, distinct from that of service performance, is discussed later in paragraph 28. This distinction is important as although 'service performance' may be a generic term, as it potentially has a broad scope, the perception of what constitutes service performance reporting in practice varies, as entities may be required or elect to report on only one aspect of service performance in their service performance report.

##### ***(i) Terminology***

11 Our research included examining terminology (and definitions) commonly used in relation to service performance reporting to help identify a common understanding of what 'service performance' is and as a possible starting point for developing an agreed lexicon of service performance reporting. The lexicon will help ensure common understanding of issues as this project progresses. Appendix C of this paper

identifies terms we found were commonly used in the context of service performance. These include goals, objectives, inputs, activities, programs, outputs, outcomes, efficiency, effectiveness and key performance indicators.

- 12 Although these terms are the terms we found to be commonly used in the context of service performance, some of them are also used in a wider or different context. For example, the term ‘service’ may be used in the context of a service that an entity provides as one of the goods and services it provides, compared with ‘service’ performance, which focuses on how an entity has provided both goods and services.

(ii) *Definitions*

- 13 Paragraph 14 identifies the meanings of the terms we found in our research, as a precursor to suggesting what practice seems to perceive service performance to be in paragraph 26.

- 14 The following possible definitions are based on the explicit definitions disclosed in the explicit frameworks reviewed, combined with our judgement where there were variations:

- *goals*: what an entity is trying to accomplish through its *activities* in the long-term;
- *objectives*: similar to *goals* but have a shorter term focus;
- *inputs*: resources used to create an *output*;
- *activities*: the processes an entity undertakes;
- *programs*: a subset of *activities*;
- *outputs*: the final goods or services an entity has produced or delivered;
- *outcomes*: the impact, effects, or results of an entity’s *outputs*. *Outcomes* can be positive or negative. [Both service *outputs* and service *outcomes* are referred to as service accomplishments];
- *efficiency*: how well an entity produced its *outputs* for a given level of *inputs*. An entity is described as more efficient if it produced more *outputs* from the same level of *inputs* or used fewer *inputs* to achieve the same level of *outputs* [in this context how ‘well’ an entity produced outputs can refer to measures of time, quantity, quality or cost];
- *effectiveness*: the extent to which an entity achieved its *objectives* or *outcomes* through the delivery of its *outputs*; and
- *key performance indicators (KPIs)*: critical metrics that are used to provide an indication of an entity’s *efficiency* or *effectiveness*.

- 15 As defined in paragraph 14 *inputs* are resources used to create an *output*. In the context of an entity that has several intermediate processes between its inputs and its outputs, practice suggests that there could be some confusion as to what is an input and what is an output. For example, assume a charity provides dinners for the elderly. The entity receives funding to purchase raw ingredients that are cooked to produce meals, that are then delivered to the elderly. Per paragraph 14 the definition of an input is, ‘the resources used to create an output’. Therefore, in practice some would see the input as the cash that is used as the entity purchases the raw ingredients, some would see the input as the raw ingredients and the time of the volunteers as the

volunteers use the raw ingredients to make meals and some would see the inputs as the meals that are used in the delivery of providing the service of dinner. This distinction will be discussed further in the series of papers in relation to item 7.8 of this project, the principles of service performance reporting, as identified in the project plan as at 2 February 2010. For the purpose of this paper, consistent with what we have found in practice, 'inputs' relate to all possible resources used in generating outputs, including cash received. Therefore funding and grants are currently discussed under the heading inputs later in this paper, in paragraph 57, but this is not to pre-empt the conclusion of a future discussion as to whether they should be regarded as inputs when developing principles for service performance reporting.

- 16 In paragraph 14 we defined outputs as, 'the final goods or services an entity has produced or delivered'. Some explicit frameworks define outputs as the final goods or services an entity has **provided**. In terms of goods, goods produced may not always equal goods provided. In the example in paragraph 15, if the entity did not have to deliver the meals, some may see the entity's output as the number of meals made (produced), and some as the number of meals given to the elderly (provided), which may be different if there are meals left over. We have defined the term output based on how the majority of explicit frameworks have defined it, however, this distinction between "provided" and "produced" will be considered further in the series of papers in relation to item 7.8 of the project plan.
- 17 In this paper, based on practice, we have defined outcomes as, 'the impact, effects, or results of an entity's outputs', and have specifically not made reference to whom the impact is on. The various definitions refer to a wide scope of potential groups that could be impacted. For example, individuals, an entity's target population, the community, society or the environment. The New Zealand FRSB Technical Practice Aid No. 9 *Service Performance Reporting* (TPA-9) paragraph 4.10 notes that the definition can vary depending on which perspective is taken. As to which perspective is or should be taken will be considered in the series of papers in relation to item 7.8 of this project plan.
- 18 The key distinction between outputs and outcomes in the frameworks we reviewed is that outputs are able to be specifically controlled by and linked to an entity. In contrast, the achievement of outcomes is often affected by external factors that are beyond the control of the entity. An example illustrating the difference between outputs and outcomes, would be a school that increases outputs (e.g. the number of teaching hours) one year with the aim of improving outcomes (e.g. the external exam pass rates of its students); that year exam pass rates increase. It is likely that the increased teaching hours contributed to the increased pass rates, although it would be hard to prove as other factors such as increased home tuition may have also affected the pass rates.
- 19 We noted from our research that one way in which frameworks differentiate outputs from outcomes is on a time basis. For example, in discussing non-financial performance reporting frameworks, the NZ auditing standard AG-4 *The Audit of Service Performance Reports* (2009) (AG-4) distinguishes between medium term components that typically incorporate an outcome-oriented statement of intended or actual achievements and an annual component that incorporates an output-oriented statement of service performance (AG-4 paragraph 18(g)).

20 KPIs, as defined in paragraph 14, provide an indication as to the effectiveness or efficiency of the entity. In this context KPIs can refer to an entity's inputs, outputs or outcomes, a link between these and/or an entity's aims/objectives or a metric external to the entity. For example, based on what we found in practice, possible KPIs of a school could be:

- % of academic staff with doctorate degree (input KPI);
- class sizes and pupil teacher ratios (output KPI);
- the pass rates of students (outcomes KPI); and
- the school ranking on government list (external to entity KPI).

21 Paragraph 14 notes that the explicit frameworks researched refer to 'objectives' as having more of a short-term focus than an entity's goals. It is relevant to note that the definition of a not-for-profit entity uses the term 'objective' as per the AASB glossary and various AASB standards:

“An entity whose principal **objective** is not the generation of profit . . .” (emphasis added)

It is possible that in this context 'objective' is meant as the long-term 'raison-d'etre' of the entity. This is an important distinction because, as noted in paragraph 2, the AASB decided to adopt a working principle for constraining the type of information that the Board would consider requiring in service performance reports as: 'service performance information that relates to an entity's principal **objectives**' (emphasis added). This potential difference in terminology will be considered further in the series of papers in relation to item 7.8 of the project plan, on the principles of service performance reporting.

22 **Question 1: relating to terminology and definitions**

- (a) Do you think that we have identified the significant common terms and the essence of their definitions used in relation to service performance reporting found in practice; and
- (b) Do you think these might be appropriate terms and definitions that we can work with as a basis for identifying a possible lexicon for a service performance reporting framework?

*(iii) Definition of service performance*

23 As implied in paragraph 10, our research shows that the scope of service performance reporting is narrower than the scope of service performance, i.e. in practice service performance reporting is sometimes limited to reporting one or some, but not all aspects of service performance. Therefore, in the following we consider the definition of service performance as a broad/generic term, before discussing how service performance reporting is defined in practice in paragraphs 28-36.

24 AASB Statement of Accounting Concepts 2 *Objective of General Purpose Financial Reporting* defines performance as, “The proficiency of a reporting entity in acquiring

resources economically and using those resources efficiently and effectively in achieving specified objectives”. This definition is currently used in accounting standards mainly in the context of ‘financial’ performance. However, it is also relevant to service performance. NZ AG-4 defines performance in a way that more explicitly relates to service performance, as follows:

“*Performance* – Performance refers to how well an entity performs against its objectives. It is a comprehensive concept, as performance can relate to a wide range of elements, such as outcomes (including impacts or other intermediate-level outcomes), outputs, inputs, and capability. Performance may also be expressed in relational terms, such as efficiency (i.e. relationship of inputs to outputs) or effectiveness (i.e. relationship of outputs to outcomes).  
The term “service performance” relates specifically to outputs.”

- 25 It is notable that the last sentence of AG-4’s definition could be removed without undermining the fundamentals of the definition. The question of whether “service performance” should relate specifically to outputs (instead of perhaps also inputs and outcomes) will be considered further in the series of papers in relation to item 7.8 of the project plan, on the principles of service performance reporting.
- 26 Based on this and the terms and definitions in paragraph 14, we deduce that a common perception in practice of service performance is: **how efficient an entity was/is or plans to be with its inputs and activities in producing outputs and its effectiveness in producing outcomes that accomplish its objectives and goals.** In this context, the term performance can be positive or negative.

27 **Question 2: relating to the definition of service performance**

- (a) Do you think that the definition of service performance identified in paragraph 26 is a reasonable reflection of practice?
- (b) Might it be an appropriate basis for us to work with in developing the definition of service performance in a principles based service performance reporting framework?

***(b) The objective and scope of service performance reporting***

- 28 Paragraph 26 identifies what we found from our research to be the common perception of service performance. This section identifies the objective and scope, and hence definition, of service performance reporting we found in practice.

***(i) The objective of service performance reporting***

- 29 Appendix A of this paper identifies the explicit objectives of service performance reports adopted in the explicit frameworks we reviewed. In summary, it is common for the objective of service performance reporting to be expressed in terms of ‘meeting information needs not satisfied through conventional financial statements’. In particular, typically references are made to:

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

30 Given the Boards' focus on external reporting, the most pertinent objective is the first one. It is relevant to note that we did not find decision-usefulness from an external user perspective explicitly identified as an objective. Arguably the first objective identified in paragraph 29 helps ensure the decision-making needs of users of financial reports of non-for-profit entities are being met, as the information can help a user decide, for example, whether to allocate resources to the entity. Financial statements already provide users with decision-useful information (and accountability) with regards to financial performance and position, but do not focus on providing decision-useful (and accountability) information about non-financial performance or position.

31 In that regards, in the US, Governmental Accounting Standards Board (GASB) states that Service efforts and accomplishments (SEA) reporting is a form of general purpose external financial reporting that assists governments in meeting their responsibility to be publicly accountable. The objective of SEA reporting is to assist citizens, elected officials, and other interested parties (collectively referred to as "users") in assessing the performance of services provided. SEA reporting provides more information about a government's performance than can be provided by traditional financial statements. SEA reporting is intended to include information about the services provided and the effect of those services to assist users in assessing how well the government is achieving its goals and objectives.

32 There is often debate as to whether there is a trade-off between information that meets user decision making needs versus information to discharge management accountability and whether these pieces of information are distinct and different. This debate extends to the usefulness of financial versus non-financial information, and the role of general purpose financial statements in providing such information. This debate has been researched in, for example, a paper, "A Public Accountability Approach to US College and University Annual Reporting" (May 1998) written by David Coy, University of Waikato, New Zealand, Mary Fischer, The University of Texas at Tyler and Teresa Gordon, University of Idaho and will be considered further in the series of papers in relation to item 7.8 of the project plan on the principles of service performance reporting.

33 **Question 3: relating to the objective of service performance reporting**

- (a) Are you aware of any other objectives of service performance reporting found in practice that we did not identify in our research?
- (b) Do you think those objectives we have found might provide an appropriate working basis for determining the objectives of service performance reports to be used in a principles-based service performance reporting framework?

*(ii) The scope of service performance reporting*

- 34 Our research shows that what is regarded as constituting service performance reporting in practice is a broad spectrum. For example, in the UK, Her Majesty's Treasury, the Cabinet Office, National Audit Office, Audit Commission and Office for National Statistics jointly published *Choosing the Right Fabric: A Framework for Performance Information* in 2001. Page 9 of the report refers to Service Delivery Agreements (SDAs) that outline targets against which Public Sector Departments report annually. It refers to reporting targets that, 'measure a variety of outcomes, outputs, and inputs'.
- 35 In contrast, the NZ FRSB TPA-9 states that service performance reporting should be primarily focussed on outputs (paragraph 4.2) and that other factors, for example inputs and outcomes, should only be used as contextual information and should not be included in a service performance report. TPA-9 defines service performance reporting as the "reporting of the performance of a delivery entity in providing the outputs, as specified, to the purchaser" (Appendix A, page 47). Because of the difficulties of holding an entity accountable for outcomes, TPA-9 states that information on outcomes should be provided as contextual information to a service performance report, rather than as part of the report itself (paragraph 4.7). However, TPA-9 also acknowledges the usefulness of information about the link between outputs and outcomes, particularly in relation to explaining the rationale for the selection of outputs (sometimes referred to as the "intervention logic"). TPA-9 paragraph 4.41 states, "To ensure clear accountability, the desired outcomes, the linkage between those outcomes and the outputs provided, and discussion of outcome achievement should be reported as additional non-financial information in the statement of service performance or provided elsewhere in the relevant report." NZ IAS 1 *Presentation of Financial Statements* (Revised 2007) paragraph NZ 138.6 also encourages the disclosure of outcome information for each output presented in a statement of service performance.
- 36 What specifically is included in service performance reports in practice is discussed in more detail in paragraph 52 onwards.

**37 Question 4: relating to the scope of service performance reporting**

- (a) Are you aware of any other scopes of service performance reporting found in practice, particularly in explicit frameworks, that we did not identify in our research?
- (b) Do you think the scopes we have found might provide an appropriate working basis for determining the scope of service performance reports used in a principles-based service performance reporting framework?

*(c) The relationship of service performance reports to conventional financial statements*

- 38 Appendix B of this paper documents the results of our research on the relationship of service performance reports to conventional financial statements found in practice. In

summary, our findings show that there is evidence that those bodies creating service performance frameworks and monitoring entities' service performance consider that conventional financial statements do not fulfil the objectives of service performance reporting and that service performance reports have a distinct objective.

- 39 It is apparent that information about an entity's financial performance for a period and financial position at a point in time is regarded by many as sufficient to discharge the accountability of management as to how they have met the objective of a for-profit entity (which is a financial objective). However, if an entity's main objective is not the generation of profit, practice implies that further information other than financial information is needed by users for decision making and accountability purposes. Practice suggests that users need both types of reporting (financial performance and service performance) to analyse the performance of an entity, and it is apparent some believe that conventional financial statements do not go far enough to meet the needs of users of financial reports of not-for-profit entities.
- 40 Several explicit service performance reporting frameworks state that entities should link non-financial information provided to financial information provided, but do not suggest how. TPA-9 paragraph 7.19 is more specific in this regard and requires the outputs/costs of an entity's service performance report to be reconciled with an entity's total expenses as disclosed in their financial statements.

**41 Question 5: relating to conventional financial statements and the link between them and service performance reports**

- (a) Consistent with what we have found in our research, do you agree that existing service performance reporting frameworks support the view that conventional financial statements do not provide sufficient information in fulfilling the objectives of service performance reporting?
- (b) Do you think that existing service performance reporting frameworks support the view that there is a direct link between financial reporting and service reporting and that the link should be considered when developing service performance reporting principles?

***(d) Users of service performance reports***

- 42 Our research shows that although users of service performance reports are often referred to in explicit frameworks or the frameworks implicit in service performance reports found in practice, they were rarely explicitly disclosed or defined. Appendix F of this paper discusses references to users of service performance reports we found in our research and also users of service performance reports referred to in other research projects we reviewed that discuss theoretically who the users of service performance reports are.
- 43 The IASB/AASB and NZ conceptual frameworks make reference to the following users of financial reports:
- present and potential investors;
  - employees;

- lenders;
- suppliers and other trade creditors;
- customers;
- governments and their agencies; and
- the public.

44 Terms used to describe categories of users of service performance reports found in our research also include:

- funders and financial supporters (for example, taxpayers and donors);
- elected or appointed representatives;
- governors (e.g. Ministers and local authority councillors);
- central agencies;
- other monitoring agencies;
- some grant providers; and
- entities' management.

**45 Question 6: relating to users of service performance reports**

(a) Are you aware of any other users of service performance reports in practice that have not been identified in our research?

(b) Do you think the lists of users in paragraph 43 and 44 might be appropriate to use as a basis for determining the users of service performance reports that we could use in developing a principles-based service performance reporting framework?

***(e) Qualitative Characteristics of service performance reports***

46 Appendix D of this paper documents our research on the qualitative characteristics that explicit service performance reporting frameworks encompass.

47 The IASB's *Framework for the Preparation and Presentation of Financial Statements* identifies four principal qualitative characteristics that financial statements should exhibit: understandability, relevance (including materiality), reliability (including faithful representation, substance over form, neutrality, prudence and completeness) and comparability. The Framework also makes reference to the constraints on relevance and reliability as timeliness and cost/benefit and balance. It is generally understood that applying these principal qualitative characteristics and appropriate accounting standards normally results in financial reports that convey what is generally understood as a true and fair view.

48 The IASB's emerging Framework (i.e. the current IASB project to review the Conceptual Framework) refers to the following qualitative characteristics:

- relevance;
- faithful representation;
- comparability;
- verifiability;

- timeliness; and
- understandability.

The IASB's emerging framework also makes reference to the following constraints:

- materiality; and
- cost.

49 In summary, the following qualitative characteristics were mentioned in other explicit service performance reporting frameworks we found in our research:

- relevance;
- understandability;
- comparability;
- timeliness;
- consistency;
- reliability;
- validity;
- fairness;
- credibility;
- accuracy;
- meaningfulness;
- attributability; and
- balance.

50 The qualitative characteristics validity, creditability and accuracy were observed in our research, but not explicitly in the IASB Conceptual Framework. These characteristics are often achieved using statutory sign-offs and audit procedures by the directors and auditors of the entity. In our research we found that sign-offs of service performance reports were required by some entities. This is discussed further in paragraph 100.

51 **Question 7: relating to qualitative characteristics of service performance reporting**

- (a) Are you aware of any other qualitative characteristics of service performance reporting found in practice that we did not identify in our research?
- (b) Do you think what we found in our research might be appropriate to use as a basis for determining the qualitative characteristics that should be used in a principles-based service performance reporting framework?

*(f) Type of Information included in service performance reports*

52 Appendix E of this paper documents our findings on the type of information required or voluntarily included in service performance reports. For ease of discussion the information has been categorised into the following groupings:

- (i) entity information;
- (ii) inputs (including grants);
- (iii) outputs and outcomes;
- (iv) KPIs;
- (v) costs;
- (vi) disaggregations;
- (vii) comparisons and sensitivities;
- (viii) commentary;
- (ix) service position;
- (x) assurance/‘sign-off’; and
- (xi) other items.

53 The following considers these areas in a summarised manner. However, some specific examples have been included, where necessary, to show the type of information being included in service performance reports in practice. Furthermore, consideration of the extent to which financial versus non-financial information, and quantitative versus qualitative information, is presented in service performance reports in practice is not included in a separate section, but discussed where relevant in the respective grouping as listed in paragraph 52.

*(i) Entity information*

54 Our research shows that service performance reports often include (whether required or voluntarily) the following entity information:

- the goals, objectives and strategy of an entity;
- the risks faced by the entity, including procedures taken by the entity to mitigate them;
- capacity constraints;
- the role/function and structure of the entity, including what they are accountable for and to whom;
- the purpose and scope of the entity’s service performance reporting; and
- the commitments and resources available to the entity.

55 Some of this information is also required by legislation or other financial reporting requirements to be disclosed in an entity’s financial statements. For example, the Corporations Act 2001 requires that an entity disclose the main activities of the entity and future operations in its Directors’ report, and AASB7/NZ IFRS 7 *Financial Instruments: Disclosures* requires disclosure of financial risks.

56 **Question 8: relating to entity information included in service performance reports**

- (a) Are you aware of any other types of entity information that is included in service performance reports in practice?
- (b) Do you think the entity information identified in our research might be appropriate to use as a basis for determining principles for the type of entity information to be included in a service performance reporting framework?

(ii) *Inputs (including grants)*

57 We found information specifically required or voluntarily provided by entities in relation to inputs in practice was:

- funding; and
- volunteer/employee information.

*Funding*

58 As noted in paragraph 15, some including some of the project team, argue strongly that funding is not an input. However, for the purpose of this paper funding has been discussed in the input section.

59 The details surrounding funding were often disclosure of the value of the funding and whom it had been provided by. Some of the explicit frameworks required the cost of funding (i.e. fundraising costs), funding compared to budget (see comparison section in paragraph 88) and the funding process to be disclosed. An example of a funding disclosure is seen in Canadian Red Cross Annual Report 2008-2009:

Donation Sources		M = Millions
\$192 M	Donations from generous Canadians	
\$131.8 M	Federal government matching funds through the Canadian International Development Agency	
\$19.3 M	Provincial government contributions	
\$19.2 M	Corporate contributions	
\$22.7 M	Investment income	

*Grants*

60 There was little evidence from our research of disclosures relating to grants received in service performance reporting. In terms of the explicit frameworks researched, only one reference was found in relation to grants received, which was in the Institute of Chartered Accountants in Australia report '*not-for-profit annual and financial reporting – The essential tool for transparent reporting, March 2009*'. This guidance

suggested disclosing the amount of funding received through various categories of grants.

- 61 Current financial statements contain some disclosures in this area. AASB 1004 *Contributions*, which applies to not-for-profit entities, AASB ED 180/FRSB ED 118 *Income from Non-exchange Transactions (Taxes and Transfers)*, which proposes replacement requirements for AASB 1004 and AASB 120/NZ IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, which does not apply to not-for-profit entities, together contain the following themes in relation to funding and grants:

- nature and extent of grants received;
- the value of assets received (cash and non cash);
- any restrictions or conditions attached to the grants or assets;
- the period they relate to (especially if cross periods or received in advance);
- the nature and type of bequests, gifts, donations and goods in kind received; and
- the accounting policy and how the fair value of any contributions if any has been determined.

#### *Volunteers*

- 62 The *PwC Transparency Awards Jury report – Appendix 1: Detailed feedback* (April 2009) states that the following should be disclosed in terms of volunteer information, although this level of detail was not found in any reports or frameworks we researched:

##### *“Volunteers*

... We believe minimum disclosures should include:

- number of volunteers
- details of policies regarding the involvement of volunteers, such as screening processes and the activities that volunteers are involved in
- procedures for preparing volunteers for the activities they will undertake, including any training provided
- deployment of volunteers
- recognition of volunteers.

An indication of the extent of volunteer involvement, either through number of volunteer hours or a \$ value of volunteer contributions, would add greater insight into an organisation’s reliance on the voluntary support it receives.”

- 63 AASB 1004 requires disclosure of the fair value of goods and services received free of charge if recognised in the financial statements. AASB ED 180/FRSB ED 118 also proposes requirements in this area, proposing disclosure of, ‘the nature and type of major classes of services in-kind received.’

64 **Question 9: relating to information about inputs included in service performance reports**

- (a) Are you aware of any other information about inputs that is disclosed by service performance reports in practice?
- (b) Do you think the type of information about inputs provided in service performance reports in practice might be appropriate to use as a basis for determining principles for the type of information about inputs to be included in a service performance reporting framework?

*(iii) Outputs and outcomes*

- 65 Our research considered how both outputs and outcomes were identified, measured and presented. Given the interrelationship between the two, we have discussed them in one section.

Outputs

- 66 We found entities were either required or elected to disclose details in relation to outputs, although not all explicit frameworks used the specific term ‘output’ as defined in paragraph 14. No information was found in relation to how outputs are to be identified by an entity in the explicit frameworks we researched, however, the explicit frameworks frequently provided a definition of them (see paragraph 14), but left it to the entities themselves to determine what their outputs were. We found that some public sector explicit service performance reporting frameworks specified the outputs that they required an entity to disclose.
- 67 One issue we researched was whether the frameworks considered the measurability of outputs. This issue is considered by Certified Practising Accountants (CPA) Australia in its policy paper *Financial Reporting by Not-for-Profit Entities* (issued in 2000). The paper states, ‘the concession is made, however, that there may be problems in measuring accomplishments and that research is required to determine if appropriate measures can be developed. Nevertheless . . . measurement problems aside —accomplishments may at the very least be conveyed to users via management explanations and non-financial sources.’ We noted that explicit frameworks often referred to the disclosure of measurable outputs. Outputs were often disclosed in the form of KPIs (see paragraph 77 below). Both qualitative and quantitative disclosures of outputs were found. Below is an example of how a service performance report has disclosed outputs quantitatively in tabular form, taken from the Royal New Zealand Foundation for the Blind – *summary statement of service performance 2008-2009* (note this also provides an example of how entities are presenting comparative service performance information – see paragraph 88):

Guide Dog Services	Actual 2007/8	Planned 2008/9	Achieved 2008/9
Puppies bred, purchased or donated	108	110	116
Dogs completing training	40	45	37
Dogs withdrawn from puppy development, assessment and training and re-homed	40	45	44
Teams graduated and matched	37	45	32

68 However, some entities and explicit frameworks used more of a narrative approach to the disclosure of both qualitative and quantitative outputs. For example the Canadian Coast Guard Annual Report 2007-8 included a table of its committed outputs at the start of the year and then a narrative as to whether these had been completed or not. Outputs were also found to include non-financial information, (as illustrated in the extract from the Royal New Zealand Foundation for the Blind – *summary statement of service performance 2008-2009* in paragraph 67), and financial information, for example disclosure of cost per output.

#### Grants

69 Typically for grants, information was provided as to the number and value of grants that the entity had provided to others. An example shown here is taken from the University of Canterbury’s Statement of Service Performance, End-of Second Quarter Report (as at 30 June, 2009).

Key Performance Indicators	2007 Actual	2008 Actual	2009 Actual as at June 30	2009 End of year forecast as at June 30	2009 Planned as per revised Profile
Number and value of research scholarships funded by the University	195 \$3.8m	229 \$4.1m	193 \$2.4m	274 \$5.0m	230 \$4.1m
Number and value of internal research grants, including equipment	201 grants \$1.8m	274 grants \$2.389m	204 grants \$0.84m	261 grants \$2.4m	220 grants \$2.2m

**70 Question 10: relating to outputs included in service performance reports**

- (a) Are you aware of any other information about outputs that is disclosed by service performance reports in practice?
- (b) Do you think the type of information about outputs that we found in our research might be appropriate to use as a basis for determining principles for the type of information to be included in a service performance reporting framework?

## Outcomes

- 71 Paragraph 14 of this paper considered the definition of outcomes in the context of service performance reporting found in practice and the distinction between outputs and outcomes. We found that many explicit frameworks require disclosure of both an entity's outputs and outcomes. For example, when preparing a public performance report, paragraphs 34-81 of The Statement of Recommended Practice (SORP) 2 *Public Performance Reporting*, issued by the Public Sector Accounting Board (PSAB) in September 2006 (SORP 2) recommend that the report 'describes the planned results in terms of (outputs and outcomes) for the reporting period'. No explicit framework or frameworks implicit in service performance reports researched disclosed or required disclosure of outcomes alone. It was noted in the service performance reports researched that there was more frequent disclosure of outcomes in a narrative/qualitative form, however there was sometimes also inclusion of outcomes in a numerical form. For example, the Hale School 2008 *School Performance Information* presents outcomes in a quantitative tabular form (note this also provides an example of how entities are presenting comparative service performance information – see paragraph 88):

## 2. Key Student Outcomes

### 2.1 Student Attendance

5.9% of students were absent for at least half a day each school day of the year. This equates to approximately 76 boys absent each day. This absence includes absence through illness or approved leave.

### 2.2 Proportions of Year 3, 5, 7 and 9 students meeting national reading, writing, spelling and numeracy benchmarks in 2008.

	Year 3			Year 5			Year 7			Year 9		
	W.A. (%)	National (%)	Hale (24) (%)	W.A. (%)	National (%)	Hale (52) (%)	W.A. (%)	National (%)	Hale (84) (%)	W.A. (%)	National (%)	Hale (190) (%)
Reading	89.50	92.10	96	89.20	90.90	96	92.80	94.20	100	92.20	92.90	99
Writing	94.90	95.40	92	91.00	92.50	96	90.20	91.80	98	85.60	87.20	99
Spelling	89.40	92.40	100	89.60	91.70	96	90.70	92.40	100	87.80	89.70	98
Grammar & Punctuation	87.80	91.70	100	89.30	91.90	100	88.30	91.60	96	87.70	89.90	99
Numeracy	94.70	95.00	100	91.20	92.60	100	94.80	95.40	100	92.70	93.60	99

- 72 As with our findings on outputs, there did not appear to be any reference in the explicit frameworks researched as to how an entity identifies outcomes, however, similarly to outputs, some public sector explicit service performance reporting

frameworks specify the outcomes that an entity should disclose. A general sense from our research is that the distinction between outputs and outcomes is grey, with some characterising as outputs the kind of things that others characterise as outcomes. We also found that some entities did not explicitly distinguish between outputs and outcomes in their service performance reports.

- 73 Many frameworks referred to and required disclosure of the link between outputs and outcomes and the entity's objectives. NZ AG-4 describes service performance reports as providing information on output delivery. However, it then goes on to explain that, "Service performance reporting is concerned not only with reporting how well services are delivered (output delivery performance) but also with how effective the services are at achieving the entity's service objectives (achievement of impacts and outcomes). Service performance reports should therefore provide some link to impact and outcome information." (AG-4 paragraph 18(o)). NZ TPA-9 notes that information is needed about outcomes and how well they are being achieved in order to make sound decisions about output delivery. NZ IAS 1 (paragraph NZ 138.6) states that "For each output disclosed in a statement of service performance, where practical and appropriate, the outcome(s) to which the output is intended to contribute is to be disclosed." TPA-9 (paragraph 4.41) encourages entities to report information on outcomes, the linkage between outcomes and outputs, and outcome achievement as contextual information (that is, as additional non-financial information in the Statement of Service Performance or elsewhere in the relevant report).
- 74 NZ TPA-9 requires information on outcomes to be provided as contextual information to avoid the possibility of an entity inappropriately implying that it is accountable for outcomes. Some of the explicit frameworks researched required entities to include a discussion on which outcomes they were and were not in control of and the extent to which the entity was wholly or partially responsible for an outcome.
- 75 Our findings reported in paragraph 67 in relation to the measurement of outputs are also applicable to the measurement of outcomes.

**76 Question 11: relating to outcomes included in service performance reports**

- (a) Are you aware of any other information about outcomes that is disclosed in service performance reports in practice?
- (b) Do you think the type of information included in service performance reports on outcomes found in our research might be appropriate to use as a basis for determining principles for the type of information about outcomes to be included in a service performance reporting framework?

(iv) *KPIs*

- 77 This section considers the types of KPIs found in our research on a stand alone absolute basis, rather than relative to a comparator (e.g. prior year), which is often how they are reported in practice. For comparison of KPIs see paragraph 88.

78 In our research, we found frequent specific reference to KPIs. There were also often references to a ‘balanced score card’, which included presentation of KPIs. Although the actual KPI metrics found in our research varied from entity to entity, we have summarised into the following broad groups:

- efficiency KPIs – these types of KPIs included reference to how timely outputs were produced, input to output ratios and also the number of delays/problems with activities;
- productivity KPIs – these typically included the number of outputs, often disaggregated, and more detailed information around costing not provided by the financial statements;
- satisfaction KPIs – reference to how satisfied customers or stakeholders of the entity were; and
- quality KPIs – reference to the quality of the services provided.

When compared to the entity’s goals and/or objectives these indicate how effective an entity has been in achieving its goals and/or objectives.

79 Our research shows that there was not a great amount of detailed guidance in explicit frameworks as to how an entity identifies its KPIs. However, we found that some public sector explicit frameworks dictated those KPIs that an entity is required to disclose. It is notable that our research did not find any entities disclosing an administration cost ratio.

80 We found KPIs to be both financial and non-financial in nature. For example, cost per output (financial), or number of defected goods (non-financial). A Social Return on Investment model has also been developed by the Roberts Enterprise Development Fund in California and is discussed in ‘Not-For-Profit Finance Forum’ (24 July 2006, page 9) produced by Philanthropy Australia. This measurement tool calculates, in monetary terms, the social returns created for society by each dollar (or equivalent) spent by the entity. The example given by the report is as follows:

‘a UK program called Getting Out to Work provides intensive one to one support and advocacy to young ex-offenders to help them find and sustain long-term employment. The Getting Out to Work program is measured in terms of the project’s impact on the people who took part in the project and the communities where they live. The social returns which were taken into account include the increase in the personal income of the people participating in the project, the value created for the government because those people are no longer on unemployment benefits and are paying taxes, and the social benefits such as reduced crime. An independent evaluation has measured all these impacts in money terms and estimates that for every pound invested in the program, £10.50 of social value is created for society.’

This model will be discussed further in the series of papers in relation to item 7.8 of the project on the principles of service performance reporting.

**81 Question 12: relating to KPI information found in service performance reports**

- (a) Are you aware of any other types of KPI information that are disclosed in service performance reports in practice?
- (b) Do you think that the type of information found in our research in relation to KPI information might be appropriate to use as a basis for determining principles for the type of KPI information to be included in a service performance reporting framework?

*(v) Costs*

- 82 Costs were referred to in many service reporting frameworks (both explicit and implicit), however, no explicit definition was found in our research. Explicit service performance frameworks made reference to the disclosure of costs per output and costs of fundraising.
- 83 When researching costing models used in practice, we found that there are many different models available and used. We found that there was limited prescription surrounding costing models and that entities tend to determine for themselves the particular type of costing model that they use and the extent to which the model needs to be modified to make it more suitable to meet the particular needs of entities. We noted differing levels of complexity in the available models and significant differences in how the models allocate overheads. Many costing models use technical words and methods that are not widely understood. For more detail see Appendix G of this paper.
- 84 Costing models and the extent to which measurement needs to be addressed by this project will be discussed further in the series of papers in relation to item 7.8 of the project on the principles of service performance reporting.

**85 Question 13: relating to cost information found in service performance reports**

- (a) Are you aware of any other cost information that is disclosed by service performance reports in practice?
- (b) Do you think that the type of information found in our research in relation to cost information might be appropriate to use as a basis for determining principles for the type of cost information, if any, to be included in a service performance reporting framework?

*(vi) Disaggregation*

- 86 This section considers how inputs, outputs, outcomes, KPIs and costs were broken down in service performance reports. Breakdowns noted in the explicit and implicit service performance reporting frameworks were:
- by location (geographically);

- by program/activity;
- by groups of society or characteristics of individual groups (i.e. job/sex/age);
- by contract or arrangement;
- by department or structure of the entity;
- by fundraiser (event/type); and
- by timeframe.

87 **Question 14: relating to the disaggregation of information found in service performance reports**

- (a) Are you aware of any other type of disaggregation of information that is disclosed by service performance reports in practice?
- (b) Do you think that the type of disaggregation found in our research in relation to inputs, outputs, outcomes and KPIs might be appropriate to use as a basis for determining principles for the type of disaggregation to be included in a service performance reporting framework?

*(vi) Comparisons and sensitivities*

Comparisons

- 88 Our research shows that several different types of comparisons in both explicit and implicit service performance reporting frameworks were adopted. These include:
- comparatives to prior year(s) and trends (up to 5 years);
  - variance to budget;
  - forward plans/prospective information; and
  - benchmarking to other entities/national benchmarks.

- 89 For most public sector entities, variance to budget was required or provided rather than variance to the prior year. For the private sector, most reports either contained no comparison or a year on year comparison. Which of these comparisons is the most useful will be discussed further in the series of papers in relation to item 7.8 of the project plan on the principles of service performance reporting.

Sensitivities

- 90 No disclosure of sensitivity (e.g. providing information as to the number of outputs an entity could have achieved if it had had more inputs) analysis was found in our research.

91 **Question 15: relating to comparative information found in service performance reports**

- (a) Are you aware of any other comparative type information (including sensitivity analyses) that is disclosed in service performance reports in practice?
- (b) Do you think the type of comparative information we found in our research might be appropriate to use as a basis for determining principles for the type of comparative information to be included in a service performance reporting framework?

(vii) *Commentary*

92 Many of the explicit frameworks we considered require entities to provide an analysis or commentary of:

- the results, including explaining any changes from budget/benchmarks;
- actions planned to be taken to rectify shortfalls from budgets/benchmarks;
- any challenges the entity had experienced during the period;
- any significant achievements;
- factors outside the control of the entity that affected performance;
- explanations of prospective information; and
- the types of activities or projects the entity had run during the year.

93 In terms of explaining variances/comparisons of metrics (not necessarily limited to KPIs) in service performance reporting, use of the word ‘significant’ or material was often used. The concept of materiality is embedded in financial statements and defined in the IASB’s framework as:

**“Materiality**

29. The relevance of information is affected by its nature and materiality. In some cases, the nature of information alone is sufficient to determine its relevance. For example, the reporting of a new segment may affect the assessment of the risks and opportunities facing the entity irrespective of the materiality of the results achieved by the new segment in the reporting period. In other cases, both the nature and materiality are important, for example, the amounts of inventories held in each of the main categories that are appropriate to the business.

30. Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial report. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful.”

94 *Standing Direction 4.2 Reporting Requirements in terms of Part 7 of the Financial Management and Accountability (FMA) for the Report of Operations, which is what Victorian Government departments are required to comply with, sets guidelines entities should use when explaining variances:*

*“Significant or material variances in output performance reporting*

The following criteria is intended as general guidance for entities in determining whether or not to provide commentary to explain variations between budget and actual results:

- 10 per cent increase or decrease from budget;

- a variance that arises from the implementation of new policy or existing policy, government decisions or actions;
- a variance that arises from other third party influences (i.e. Commonwealth, consumer trends, etc); and
- a variance that may be of public interest.”

Materiality, and the extent to which variances should be explained, will be considered further in a paper as part of item 7.8 of the joint project plan on the principles for service performance reporting.

- 95 Often entities included stories or information about a particular recipient of the entity’s output, the projects the entity has been involved in or a profile of a volunteer. These appeared to be provided voluntarily. The *PwC Transparency Awards Jury report – Appendix 1: Detailed feedback* suggested that the, ‘use of testimonials or case studies is often an effective way to communicate the broader outcomes which support the organisation’s reason for being’.
- 96 The report *Requirements for Annual Reports* (17 June 2009) published by the Department of Prime Minister and Cabinet and approved by the Parliament by the Joint Committee of Public Accounts and Audit, states that the descriptions of processes and activities should be avoided. Rather, reporting should be aimed at providing an assessment of how far the agency has progressed towards outcomes, i.e. in their view service performance reports should not contain information on how the outcomes were achieve, rather just report what the entity did achieve.

97 **Question 16: relating to commentary found in service performance reports**

- (a) Are you aware of any other type of information included in commentary that is disclosed in service performance reports in practice?
- (b) Do you think the type of information included in commentary found in our research might be appropriate to use as a basis for determining principles for the type of information in commentary to be included in a service performance reporting framework?

(viii) *Service position*

- 98 A future item 7.8 of this project, the principles of service performance reporting, will consider whether to develop principles in relation to a statement of service position. i.e. an entity’s service position at a specific date. Hence we researched whether explicit and implicit frameworks on service performance reporting contain or require disclosure of service position information. We found that there was reference to capacity potential and current commitments, as noted in the ‘Entity information’ paragraph 54.

99 **Question 17: relating to service position**

(a) Are you aware of any information that would help users to assess the capability of an entity to continue to deliver services (service position) that is disclosed by entities in practice?

(ix) *Assurance/‘sign-off’*

100 Many public sector entities are required to sign-off on their service performance report by an accountable person of the entity. The FMA act in both the Australian Capital Territory (ACT) and Victoria requires this. In NZ TPA-9 notes legislative audit requirements that are applicable to many public sector entities as follows:

“3.16 Under both the Local Government Act 1974 and the Public Finance Act 1989 the Audit Office is required to audit Statements of Service Performance together with the entity’s financial statements. This requirement for reported information to be audited works to enhance the reliability of service performance reporting.”

Excluding NZ, no private sector sign-offs or audits of service performance reports were noted in our research.

101 Although we did not find explicit sign-off or assurance on most service performance reports, we note that Auditing Standard ASA 720 *Other Information in Documents Containing Audited Financial Reports*, issued by the Auditing and Assurance Standards Board in April 2006, suggests that service performance information found in annual reports is reviewed for inconsistencies with the financial statements. Paragraph 9 of ASA 720 states:

“In certain circumstances, the auditor has a statutory or contractual obligation to report specifically on other information. In other circumstances, the auditor has no such obligation. However, under paragraph 5 of this Auditing Standard, the auditor needs to give consideration to such other information when issuing an auditor’s report on the financial report, as the credibility of the audited financial report may be undermined by inconsistencies which may exist between the audited financial report and other information”.

102 **Question 18: relating to the auditability of service performance reports**

(a) Do you think that consideration should be given to sign-off or auditability issues when developing service performance reporting principles?

(x) *Other items*

103 Some other items that we found were required by frameworks to be disclosed in service performance reports were:

- health and safety;
- training;
- website use;
- legal compliance; and
- environmental/sustainability.

Entities also included similar information voluntarily, for example World Vision Australia's annual report 2008 contains a sustainability report.

- 104 These types of information seem to go beyond the scope of this project and the definition of service performance we found in practice (see paragraph 26). They could be included in the service performance report of an entity to the extent they relate to the main objectives of the entity (e.g. an entity's objective is to train homeless people). However, these areas could be subject to their own reporting, for example a statement of environmental performance or legal compliance. It is possible that these requirements were found in service performance reporting frameworks as some entities and frameworks do not distinguish between service performance reporting and other forms of performance reporting.

105 **Question 19: relating to other information included in service performance reports**

- (a) Do you think that we have appropriately captured all the other types of information included in service performance reporting found in practice?